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WEALTH OF NATIONS**

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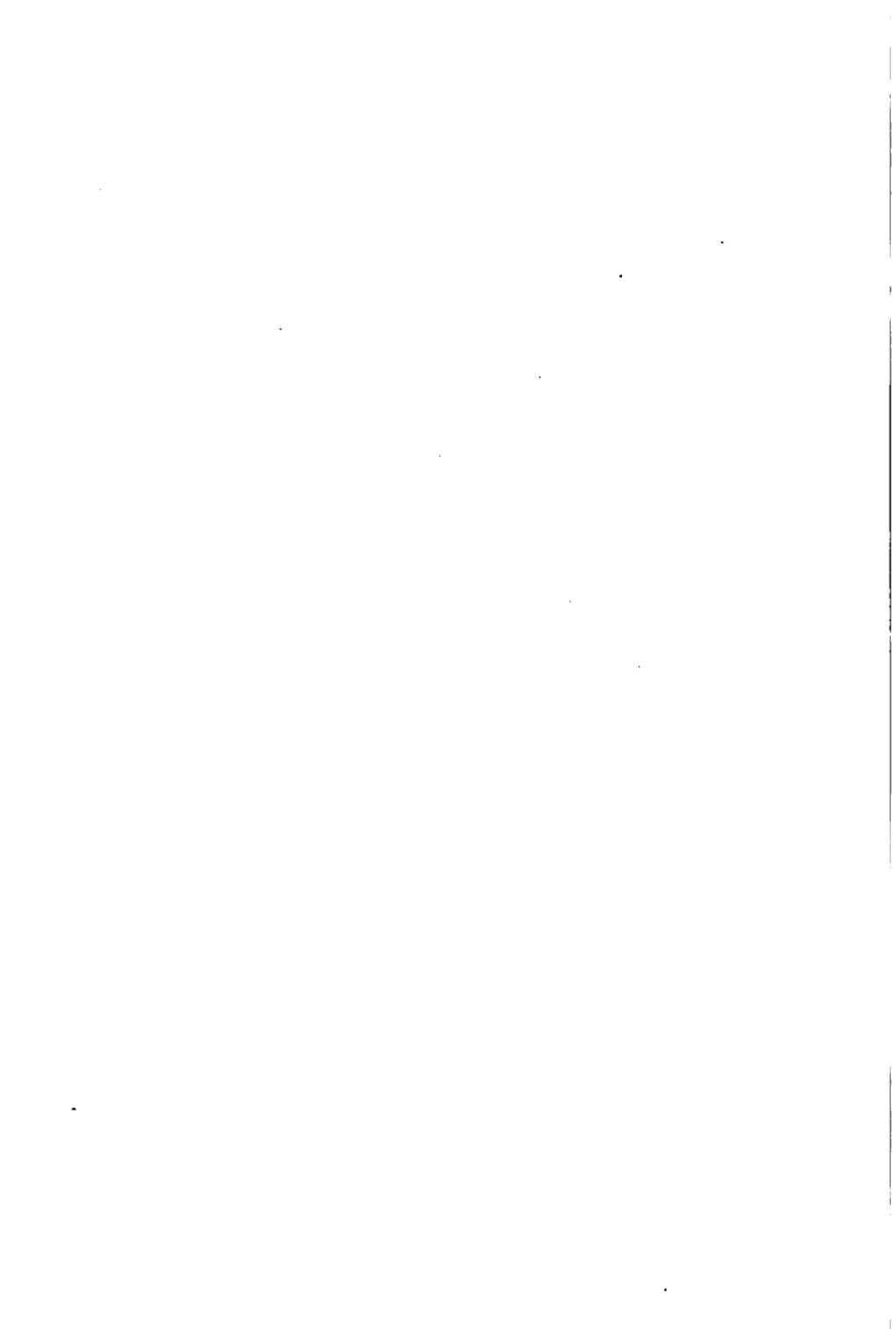
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*PART I.  
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## PREFACE TO PART I.

BY THE EDITOR.



THE BOARD OF STUDIES having prescribed Books I.-II. of the *Wealth of Nations* as a subject for examination in the Pass Schools, no apology is needed for the appearance of the present volume, which is intended to assist beginners in acquiring a clear and accurate knowledge of that portion of Adam Smith's great work.

The Third Edition of Joyce's Analysis was published in 1821, and there does not appear to have been any later issue. Many changes and corrections have been made in the text, and the more important passages are distinguished by different types, whilst nearly all Joyce's Notes have been omitted as obsolete, and I have, in my own, constantly referred to Fawcett's *Manual of Political Economy* (fifth edition, 1876) as a recognised text-book (now universally read at Oxford), and to the

edition of the *Wealth of Nations* printed at the Clarendon Press in 1869 (with Notes by J. E. Thorold Rogers), the paging of which is given at the end of each paragraph of the Analysis. At the same time, I have endeavoured to illustrate the text by reference to standard modern authors.

General Garnier's Synopsis of Books I.-II. is printed as an Appendix, condensing even the Analysis, and suggesting to the learner a different and perhaps more facile method.

An Index and List of Authorities have been added.

Although the wants of Oxford students have been specially consulted in this edition, it may possibly be of some service to students of Political Economy in general.

W. P. E.

CHRIST CHURCH: *October 1877.*

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*ERRATA.*

- Page 4, note 1, *for* Watts's *read* Watt's.  
" 33, " 2, " Twiss's General View, &c., *read* Twiss's  
View, &c.  
" 42, " 1, " Muccolloch, *read* Macculloch.  
" 58, line 8 from bottom, *insert*; after monasteries.  
" 91, " 11 from top, *for* 142 *read* 1425.

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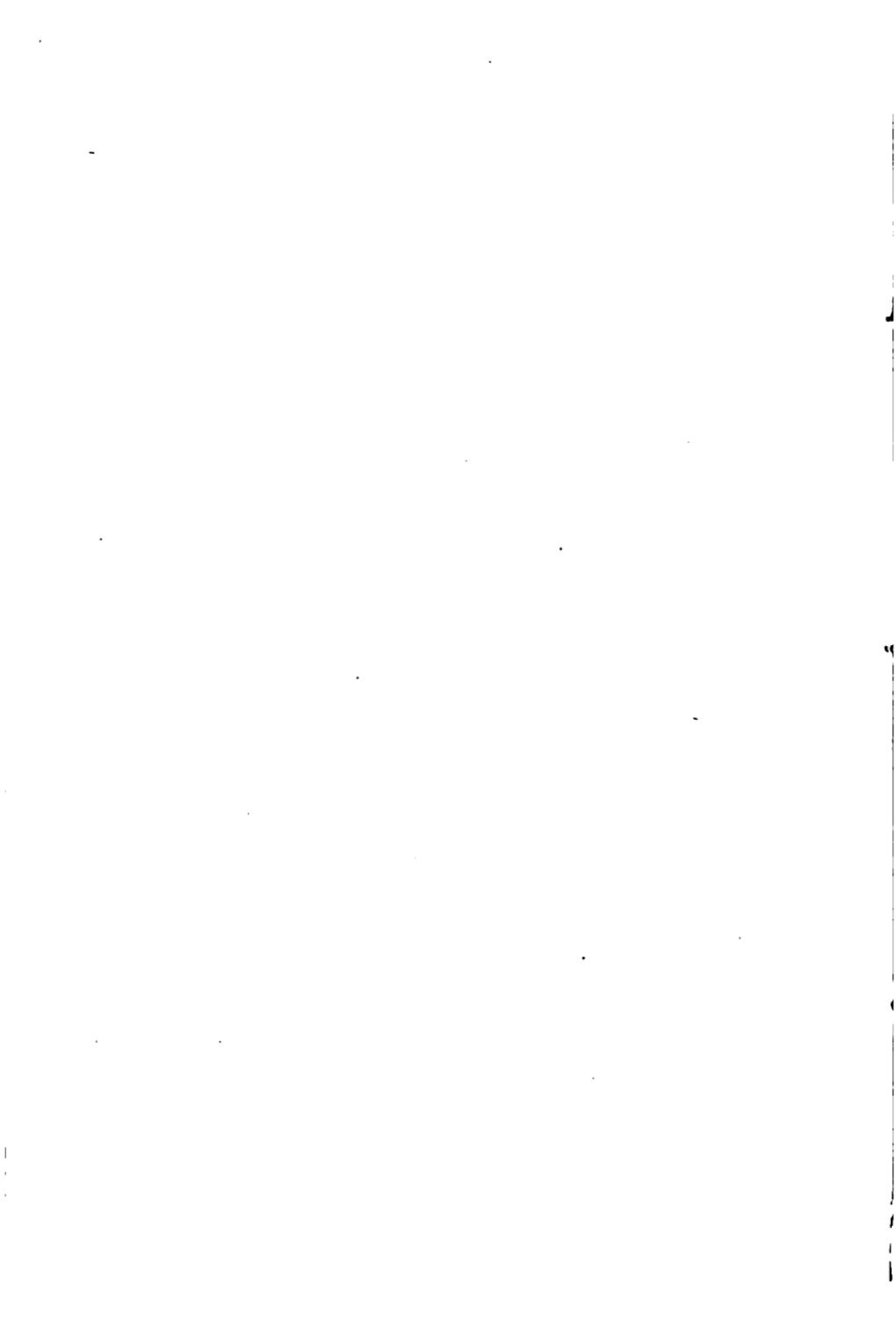
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## **INTRODUCTION**



## INTRODUCTION AND PLAN OF THE WORK.

---

THE annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences which it consumes. These necessaries, &c., consist either in the immediate *produce* of that labour, or in what is purchased with that produce from other nations.

The nation will be supplied with its necessaries, according to the *proportion* which this *produce* bears to the number of its inhabitants. This proportion is regulated: (1.) By the skill and judgment with which its labour is applied. (2.) By the proportion between the number of those who are employed in *useful* labour and of those who are *not* so employed.

Upon the *former* of these the abundance or scantiness of this supply seems principally to depend. For among savage nations of hunters and fishers, where *all* labour, there is the greatest want; whereas in civilized states, though *multitudes do not* labour, *all* are often abundantly supplied.

The cause of this improvement in the productive powers of labour, and the order according to which its

produce is distributed make the subject of the First Book of this Inquiry; and it will appear that the number of useful labourers is everywhere in proportion to the quantity of capital stock employed in setting them to work, and to the manner in which it is so employed.

The Second Book treats of the nature of capital stock: of the manner in which it is accumulated; and of the quantity of labour which it puts into motion.

Different nations have followed different plans in the *direction* of labour, of which *all* have *not* been equally favourable to the greatness of its produce.

*Some* have encouraged the industry of the *country*; —*others*, that of *towns*.

The policy of Europe has leaned to *commerce* and *manufactures*, more than to *agriculture*. The circumstances which seem to have introduced and established this policy are explained in the Third Book. This policy has given occasion to very different theories of political economy; which, with their effects, will be explained in the Fourth Book.

From these *four* books it will appear in what has consisted the revenue of the great body of the people. The *Fifth* will treat of the revenue of the sovereign or commonwealth. In which will be seen: (1.) What are the necessary expenses of the sovereign, and how they ought to be defrayed. (2.) The methods by which the *whole* society may be made to defray them; and, (3.) The reason and causes which have induced all modern governments to contract debts.

# AN ANALYSIS OF ADAM SMITH'S INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS.

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## BOOK I.

### OF THE CAUSES OF IMPROVEMENT IN THE PRO- DUCTIVE POWERS OF LABOUR, AND OF THE ORDER ACCORDING TO WHICH ITS PRODUCE IS NATURALLY DISTRIBUTED AMONG THE DIFFERENT RANKS OF THE PEOPLE.

#### CHAPTER I.

##### Of the division of Labour.<sup>1</sup>

THE greatest improvement in the productive powers of labour, and the greater part of the skill with which it is anywhere directed, or applied, seem to have been the *effects* of the division of labour. These effects, in the business of society, will be better understood by considering how it operates in some particular manufactures, p. 5.

It is commonly supposed that the *division of labour* is carried *farthest* in some *trifling* manufactures, which

<sup>1</sup> 'Division of Employment' would seem a more proper title. See Rogers, *note*.

The Division of Labour is a particular department of the Combination of Labour. See Mill, i. 8, 1; Fawcett, i. 5.



is probably an error founded upon this circumstance; that the number of workmen, in every branch of these manufactures, being small, may be collected in the same work-house, and placed *at once* under the view of the spectator; whereas in those manufactures destined to supply the great wants of the people, we can seldom see *at once* more than those employed in *one single branch*.<sup>1</sup> Therefore, the division may be greater, and yet not so obvious, p. 6.

**Example.** A person unacquainted with the business of pin-making could scarcely make a single pin a day; but by *dividing* the business into various branches, which are now distinct trades, each person may be considered as making 4,800 pins in one day, p. 7.

In all other manufactures the effects of the *division of labour* are *similar* to what they are in this, though they may not be reducible to so great simplicity; hence the increase of the productive powers of labour; the advantages of which have caused the *separation* of different employments. This separation is carried farthest in countries most improved: what is the work of *one man* in a *rude state of society* being, generally, that of *several* in an *improved* one. Hence the different trades in the woollen and linen manufactures, from the growers of the wool or flax to the dressers of the cloth, p. 7.

Agriculture does not admit of so many subdivisions of labour as manufactures; the different sorts of labour, in the former returning with the *seasons*, no man can be constantly employed in any one of them; hence its unimproved state, *in all countries*, compared with manufactures.<sup>2</sup> In agriculture, the labour of the *rich*

<sup>1</sup> Now we often find the various branches united beneath a single roof.

<sup>2</sup> A poor and rude country is usually thinly peopled and the soil under cultivation of high average fertility. Hence its labourers have as compared with those of a rich and thickly-peopled country) a highly

country is not always much more productive than that of the *poor*. The corn of Poland is generally as good, and as cheap, as that of England, notwithstanding the improved state of the latter. But in manufactures, Poland can pretend to no such competition, p. 8.

The increase in the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three<sup>1</sup> different circumstances, p. 9.

(1.) To the increase of dexterity in every particular workman; by reducing every man's business to one simple operation, and by making this operation the sole employment of his life. A common smith, unaccustomed to the making of nails, cannot make more than two or three hundred nails a day; whereas lads, under twenty years of age, who never exercised any other trade but that of making nails, can make 2,300 nails in a day. Neither is this one of the simplest operations, and of course not one where the dexterity of the workman is the greatest, p. 10.

(2.) To the saving of the time which is commonly lost in passing from one species of work to another. It is impossible to pass *very quickly* from one kind of work to another. A country weaver, who cultivates a small farm, must lose a deal of time in passing from the loom to the field. A man commonly saunters a little in turning his hand from one employment to another; and when he *first* begins the new work, it is seldom with spirit; hence the habit of *indolent careless application*

efficient instrument of production (Macculloch). Again, the motive to improvement in agricultural has been less energetic than in manufacturing pursuits, owing to two causes, Landlords and Poor Rates. Rogers.

<sup>1</sup> A fourth advantage, viz. the Classification of Labourers, rendered possible by the division of employment, has been pointed out by Babbage (*Economy of Manufactures*), p. 137. Fawcett, p. 57.

Although Babbage made the discovery independently, he had been anticipated by Gioja (*Nuovo Prospetto delle Scienze Economiche*, tom. i. cap. 4, Milano 1815).

acquired by every *country* workman, who is obliged to change his tools and work every half hour, p. 10.

(3.) Labour is much abridged by the application of *proper machinery*. The invention of those machines, by which labour is so much facilitated, and abridged, seems to have been owing to the *division of labour*: for men are likely to discover the readier methods of attaining any object when their whole attention is directed towards that single object. It is natural also, that out of many workmen employed in each branch of labour, some one or other should find the readiest method of performing his own particular work. It is a fact, that a great part of the machines, used in those manufactures in which labour is most subdivided, were the inventions of common workmen. In fire engines,<sup>1</sup> one of the greatest improvements was discovered by a boy who wanted to *save* his labour, p. 11.

Many improvements in machinery have been made by the ingenuity of the makers of machines; and not a few by philosophers, or men of speculation; whose trade is *not to do anything*, but *to observe everything*. Philosophy, like other employments, is not only a trade, but is subdivided into several classes, which, as in every other business, improves dexterity, and saves time,<sup>2</sup> p. 12.

It is the great multiplication of the productions of the different arts, in consequence of the *division of labour*,<sup>3</sup> which occasions, in a well regulated society,

<sup>1</sup> Steam engines were called fire engines in Adam Smith's time; and the invention to which he here alludes had been made by the boy Humphrey Potter, and improved by Beighton, more than fifty years before the date of Watt's first patent. See (for a popular account) Sewell on *Steam and Locomotion* (in Weale's Series), Vol. II. pp. 253, 255; or Desagulier's *Course of Experimental Philosophy*.

<sup>2</sup> For a good example of the application of the principle of the division of labour to mathematical calculations, see Babbage, *E. of M.* p. 153.

<sup>3</sup> Adam Smith appears to have attached too much importance to those advantages of the division of labour which he has placed 2nd and 3rd on his list. See Fawcett, pp. 55, 56. Mill, i. 8, 5.

that universal opulence which extends itself to the lowest ranks of the people, p. 12.

Observe the accommodation of the artificer, or day labourer, in a civilised and thriving state, and you will perceive that the number of people employed in procuring him accommodation exceeds all computation. What a variety of labour is necessary to produce the tools of the meanest workman, the shears, for instance, with which the shepherd clips the wool ! We might examine also his dress ; or furniture ; reflect on the different hands employed in preparing his bread, and his beer, the glass, the window which lets in the light, and keeps out the wind and the rain ; and it will appear, that without the assistance of *many thousands*, the very meanest person in a *civilised country* could not be accommodated in what is *falsely* called an easy and simple manner, pp. 12–14.

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## CHAPTER II.

### Of the principle which gives occasion to the division of Labour.<sup>1</sup>

THIS division of labour from which so many advantages are derived is not the effect of *human wisdom*, but of a propensity in human nature to truck, barter, and exchange one thing for another. It is common to all men, and to be found in no other race of animals. When an animal wants to obtain anything of man, it is by means of engaging his attention. Man sometimes uses the same arts, but he has not time to do

<sup>1</sup> The speculations of Adam Smith in this chapter have been abandoned by his commentators as unsound. Palpable self-interest, and not an instinctive inclination to truck, is esteemed by them the origin of the Division of Labour.

See the notes of Gibbon Wakefield, Macculloch, and Rogers.

this on every occasion. In civilised society, he at all times stands in need of the assistance of multitudes, while his whole life is scarce sufficient to gain the friendship of a *few persons*. Among other animals, each individual is independent; and, in a *natural state*, it has occasion for the assistance of no other living creature. But *man* has constant occasion for the help of his brethren, and it is in vain to expect it from their *benevolence*; he must interest their self-love. The case of a common beggar, is not altogether an exception to this rule, pp. 14-16.

This trucking disposition gives occasion to the division of labour. Among hunters, one person can make bows and arrows with more dexterity than others, which from interest, he exchanges for cattle or venison. Hence he becomes a sort of armourer. Another excels in making huts, for which he is rewarded by his neighbours, and he finds it worth his while to dedicate his whole time to this employment. In like manner a third becomes a smith; and a fourth a tanner. The CERTAINTY of being able to exchange the produce of his labour encourages every man to apply himself to a particular occupation, p. 16.

The difference of natural talents in different men is less than we suppose, and is not so much the cause, as the effect of the *division of labour*; it seems to arise not so much from nature as from habit and education. Without this disposition to barter, all must have had the *same duties* to perform, and there would have been no room for the exertion of *different talents*. This disposition forms the difference of talents, and renders the difference useful, p. 17.

Many tribes of animals, of the same species, derive from *nature* a much more remarkable distinction of genius than what takes place among men, and yet they are of no use to one another, for want of this disposition to barter or exchange. Among men the most dis-

similar geniuses are of use to one another ; the different produce of their respective talents, by exchange, being brought into common stock, where every man may purchase whatever part of the produce of other men's talents for which he has occasion, pp. 17-18.

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### CHAPTER III.

**That the division of Labour is limited by the extent of the market.**

It is the **POWER OF EXCHANGING** that gives occasion to the division of labour ; therefore the extent of this division must always be limited by the extent of the market, p. 18.

Some sorts of industry cannot be carried on anywhere but in large towns. A porter, for example. In small villages every farmer must be his own butcher, baker, and brewer. In such situations country workmen must apply themselves to many different branches of industry, employing the same materials ; a carpenter deals in every sort of work made of wood ; a smith, in whatever is made of iron, pp. 18-19.

**Water carriage is more favourable to industry than land carriage** ; the difference is very great in the distance between London and Edinburgh. But without the convenience of water carriage, it would be next to impossible to carry on any trade between very distant parts, as London and Calcutta, excepting in the case of goods of small bulk and great value, pp. 19-20.

Hence, then, the first improvements in industry would be made where this conveniency opens the whole world for a market. The inland parts of a country can for a long time have no other market than the country that lies round them ; the extent of their market

therefore must be in proportion to the riches and populousness of that country. In North America the plantations have constantly followed the sea coast, or the banks of navigable rivers. The nations first civilised were those round the Mediterranean sea, which is remarkable for the smoothness of its surface, and the number of its islands.<sup>1</sup> It was long before the navigators attempted to pass the straits of Gibraltar. Of these nations Egypt seems to have been the first place cultivated and improved to a considerable degree, owing to the advantages of the Nile, p. 21.

Improvements in Bengal and China are of great antiquity; in the former are the *Ganges*, and several other great rivers, and in the Eastern provinces of China there is a vast number of canals communicating with each other. Neither the Egyptians, Indians, nor Chinese, encouraged foreign commerce; their opulence was derived from inland navigation,<sup>2</sup> p. 22.

All the inland parts of Africa, the ancient Scythia, and the modern Siberia have always been in a barbarous state, *probably for want of navigation*.<sup>3</sup> Commerce cannot be carried on to any great extent by means of a river which runs into another territory before it reaches the sea; hence the small importance of the Danube to the states of Bavaria, Austria, and Hungary, pp. 22–23.

<sup>1</sup> Our author might have added that the products of the various shores of the Mediterranean are very different, so that the inducements to commercial intercourse between them are great.

<sup>2</sup> Great Britain, the greatest commercial nation of modern times, has more inland navigation than all Europe besides, owing to the numerous canals which everywhere intersect the country in all the commercial and manufacturing districts, communicating at once with the Thames, the emporium of foreign navigation.

<sup>3</sup> Although the expense of land carriage has been greatly diminished since our author wrote, yet it is still much more expensive than water carriage, in all those cases in which speed is not of primary importance.

## CHAPTER IV.

## Of the origin and use of Money.

THE division of labour being established, only a small part of a man's wants can be supplied by himself; the greater part are supplied by exchanging the surplus part of the produce of his own labour for the produce of other men's labour; thus every man becomes a merchant. At first this power of exchanging must have been clogged in its operations, for want of a proper medium of exchange, p. 23.

Many different commodities have been employed for this purpose, as *oxen* among the Greeks; *salt* in Abyssinia; *shells* in India; *dried cod* in Newfoundland; *tobacco* in Virginia; *sugar* in some of our West India colonies; and in a village in Scotland *nails* are made use of, p. 24.

Metals have at length been preferred almost everywhere; they are less perishable than other commodities, and can be divided into a number of parts, and *re-united again without loss*,<sup>1</sup> p. 24. Iron was the common instrument of commerce among the Spartans; copper, among the Romans; gold and silver among all rich and commercial nations. At first metals were used in bars without any *stamp*, or *coinage*; hence the trouble of *weighing* and *assaying*,<sup>2</sup> which in gold are operations of great nicety. To facilitate exchanges, and to prevent abuses, improved countries have affixed a stamp upon certain quantities of particular metals; hence the origin of coined money, and of public mints, pp. 25-26.

<sup>1</sup> Herein the precious metals differ from precious stones, that (the quality being similar) their value varies directly with the bulk.

<sup>2</sup> Frauds relating to the quality have always proved more fatal than those relating to the weight of the coined pieces, being much more difficult of detection.

The first public stamps were to ascertain the fineness of the metal, as the present *sterling marks*, p. 26.

In England, the Saxon kings were paid in *provisions*, not in money. William the Conqueror introduced the custom of paying money, which was for a long time received by weight;<sup>1</sup> the difficulty of which gave occasion to coins stamped on both sides, and likewise on the edges, p. 27. The denomination of these coins originally expressed the *weight*. The English *pound* contained a pound, *Tower weight*, of silver, of a known fineness; the French *livre* contained, in the time of Charlemagne, a pound of silver, *Troyes weight*;<sup>2</sup> the Scots *money pound* contained from Alexander the First to Robert Bruce; a pound of silver of the same weight and fineness with the English pound. English, French, and Scots pennies contained a real penny weight of silver, viz. the twentieth part of an ounce. The proportion between the shilling and the penny, or the pound, was not so constant as between the pound and the penny, p. 28.

In France, the *sous*, or shilling, appears to have contained at different times, five, twelve, twenty, and forty pennies. From the time of Charlemagne in France, and from that of William the Conqueror in England, the *proportion* between the pound, shilling, and penny, seems to have been uniform, though the *value* has been different, owing to the rapacity and injustice of sovereign princes. The English pound and penny contain at present about a third only, the Scots about 1-36th, and the French about 1-66th part, of their original value; by these means princes have been enabled to fulfil their engagements with a smaller quantity of silver than would otherwise have been re-

<sup>1</sup> Rogers supposes this practice to have continued in England until the time of Elizabeth. See his note.

<sup>2</sup> For the distinction between these two pounds, see Rogers's *History of Agriculture and Prices*, vol. I.

quisite; their creditors, however, have been defrauded. In this way money is an universal instrument of commerce, p. 28.

The word *value* expresses sometimes the *utility* of some *particular object*, and sometimes the *power* of purchasing other goods, which the possession of that object conveys; the one may be called *value in use*, the other *value in exchange*. Some things of the greatest value in use have scarcely any in exchange, as water. The value of others is only in exchange, *as a diamond*.<sup>1</sup> I shall then, 1st, Consider the real measure of this exchangeable value; 2ndly, The component parts of the price of commodities; and, 3rdly, The natural and market price of commodities, pp. 29–30.

<sup>1</sup> It will be observed that Adam Smith, after illustrating with perfect correctness the ambiguity of the word *value*, has himself employed the word *use* in two different senses in as many different sentences, e.g. ‘Nothing is more useful than water.’ Here ‘use’ = ‘capacity to satisfy a desire,’ whilst when he says ‘A diamond has scarce any value in use,’ he opposes ‘use’ to ‘pleasure.’ See Mill, iii. 1, 2, who also attacks the expression ‘exchangeable value’ as bad English, proposing as a substitute ‘exchange value.’

Again, as pointed out by Ricardo, c. i. s. 1, our author, who was bound in consistency to maintain that all things become more or less valuable in proportion as more or less labour was bestowed on their production, has himself erected another standard measure of value, and speaks of things being more or less valuable in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn, at other times of labour, as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market; as if these were two equivalent expressions, and as if, because a man’s labour had become doubly efficient, and he could therefore produce twice the quantity of a commodity, he would necessarily receive twice the former quantity in exchange for it,

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## CHAPTER V.

Of the real and nominal price of Commodities, or of their price in Labour, and their price in Money.

**EVERY MAN IS RICH OR POOR ACCORDING TO THE DEGREE IN WHICH HE CAN AFFORD TO ENJOY THE NECESSARIES, CONVENIENCES, AND AMUSEMENTS OF LIFE;** only a small part of which can be supplied by a man's own labour; the greater part must be derived from the labour of other people, and which he must purchase; hence labour is the real measure of the exchangeable value of all commodities, p. 30.

*The real price of everything is the toil and trouble of acquiring it.<sup>1</sup>* What is bought with money is purchased by labour, as much as what we acquire by the toil of our own body. The money saves us the toil, and contains the value of a certain quantity of labour. *Labour was the first price, the original purchase money,* that was paid for all things: by it all the wealth of the world was purchased, and its value is equal to the quantity of labour which it can command, p. 31.

'WEALTH,' as Hobbes says, 'IS POWER,'<sup>2</sup> i.e., it may afford a man the *means* of acquiring power, by giving him the command of other men's labour; and his fortune is greater or less according to the quantity of other men's labour which it enables him to command, p. 31.

<sup>1</sup> Adam Smith does not make any distinction here between value and price. Modern economists regard the latter as a particular case of the former. Observe that the toil and trouble of the acquirer may have been less than the toil and trouble of the producer. Value may be defined as 'The ratio in which commodities are exchanged against each other in the open market.' (Cairnes.) Therefore there can be no such thing as a general rise or fall in values.

<sup>2</sup> *Leviathan*, Part I. cap. x.

Though labour be the real measure of the exchangeable value of all commodities, it is not that by which this value is estimated; owing to the difficulty of ascertaining the proportion between different quantities of labour, both as to the *time spent*, the *hardship endured*, and the *ingenuity exercised*, p. 32.

Every commodity, therefore, is compared and estimated with other commodities, rather than by labour; being better suited to the comprehension of the people; the one being a plain object, the other an abstract notion. But when barter ceases, and money becomes an instrument of commerce, commodities are more frequently exchanged for money than for other commodities,<sup>1</sup> pp. 32-33.

Gold and silver, however, vary in their value, according to the fertility or barrenness of the mines which are known at the time. The discovery of the mines of America reduced, in the 16th century, the value of gold and silver in Europe to about one-third of what it had been before, as it cost less labour to bring these metals to market; but as gold is itself continually varying in its value, it cannot be an accurate measure of the value of other commodities, p. 33.

Equal quantities of labour, at all times, and in all places, may be said to be of equal value to the labourer, as he must always lay down the same portion of his ease, his liberty, and happiness. The price he pays must therefore be the same, whatever commodities he receives in return. Of these, his labour may sometimes purchase a greater, and sometimes a smaller quantity; but it is *their value* which varies, not that of the *labour* by which they are purchased. At all times and places that is dear which is difficult to come at, or which it costs much labour to acquire, and that cheap which is to be had easily, or with very little labour. Labour,

<sup>1</sup> It may be remarked that in the course of commerce between two different countries, money itself is only a commodity.

therefore, never varying in its value, is *alone* the ultimate and real standard by which the value of all commodities can, at all times and places, be estimated. It is their *real* price; money is their *nominal* price only,<sup>1</sup> p. 34. To the employer *labour* seems to vary like other things, but in reality it is the *goods* which are dear or cheap, and not the labour. In this popular sense, therefore, labour may be said to have a *real* and a *nominal* price, the *former* consisting in the quantity of the necessaries and conveniences of life which are given for it, and the *latter* in the quantity of money. The *labourer* is rich or poor, in proportion to the *real*, not to the *nominal* price of his labour. This distinction is of much importance. The same *real price* is always of the *same value*; but the same *nominal price* is sometimes of very *different values*, p. 35. When an estate is sold, subject to a *perpetual rent* of the *same value*, it must *not* consist in a particular sum of money, which will vary,

1st, As the quantity of metal varies in coins of the same denomination;

and, 2ndly, According to the different values of equal quantities of gold and silver at different times.

The quantity of pure metal in coins has, among all nations, been continually diminishing, which tends to diminish the value of money coin. The discovery of the gold and silver mines in America also diminished the value of gold and silver in Europe. Therefore money-rent is likely to diminish in value, though it be paid in bullion of a certain standard. Rents reserved in corn have preserved their value better. Since the 18th of Elizabeth, money-rents have almost sunk to a fourth of their value; though since the reign of Philip and Mary the denomination of English coin has undergone little or no alteration, p. 36.

<sup>1</sup> For a criticism on this passage, see Ricardo, cap. i.

Equal quantities of labour will, at *distant times*, be purchased more *nearly* with equal quantities of corn, than of gold and silver, or any other commodity; therefore at *distant times* corn will be more nearly of the same *real* value, but not exactly so. The real price of labour is more liberal in a society advancing to opulence than in one standing still, and in one that is standing still than in one *going backwards*.<sup>1</sup> Rent reserved in corn is liable only to the variations in the quantity of labour which a certain quantity of corn can purchase;<sup>2</sup> but a rent reserved in any other commodity is liable not only to the variations in the quantity of labour which any particular quantity of corn can purchase, but to the variations in the quantity of corn which can be purchased by any particular *quantity of that commodity*, pp. 36–37.

Though the real value of corn-rent varies much less from *century* to *century* than that of money-rent, it varies much more from *year* to *year*. The **money price of labour** seems accommodated to the *average* price of corn, which is regulated by the value of silver; and which seldom varies much from *year* to *year*.<sup>3</sup> Labour then appears to be the *only universal standard* by which we can compare the values of different commodities at all times and in all places, pp. 37–38.

At distant places there is no regular proportion between the real and the money price of commodities; yet the merchant considers nothing but the money price, or the difference of the quantity of silver for which he buys, and for which he is likely to sell again. At Canton, in China, half an ounce of silver may command a greater quantity of the necessities of life than

<sup>1</sup> This is due to the fact, that in an advancing society, capital usually increases faster than the number of labourers.

<sup>2</sup> This might be true if no improvement were made in agriculture; but the history of rent in England shows that the statement is false. See Rogers, *note*.

<sup>3</sup> The wages of labour may sometimes vary with the price of corn, under the influence of the poor rate. See Fawcett, p. 236.

an ounce in London ; a commodity therefore which sells for half an ounce of silver in Canton may be dearer than a commodity which sells for an ounce in London. If a London merchant can buy at Canton for half an ounce of silver a commodity which he can sell in London for an ounce, he gains one hundred per cent. by the bargain ; and this is what he wants, p. 39.

As it is, the *nominal*, or money price of goods, which regulates almost the whole business of common life where price is concerned, we cannot wonder that it should have been more attended to than the *real* price. In comparing the different *real values* of a particular commodity, at different times and places, we must consider, not the quantities of silver for which it was sold, but the *labour* which those quantities of silver could have purchased. The *current prices of labour* at distant times can scarcely *ever be known* ;<sup>1</sup> we must content ourselves with those of corn, which are more noticed by historians, p. 39.

Commercial nations have found it convenient to coin metals into money, as gold, silver, and copper, *one* of which is considered as the peculiar measure of value ; and this preference has been generally given to the metal first in use. The Romans had nothing but *copper* money till within five years of the first Punic war ; copper, therefore, appears to have been always the measure of value in that republic, p. 40. The Northern nations seem to have had *silver* from the beginning of their settlements. In England there were silver coins in the time of the Saxons ; but little *gold* coined till the time of Edward III. ; nor any *copper* till that of James I. Hence our accounts are kept in pounds sterling (*silver*), not in guineas, pp. 40, 41.

Originally, in all countries, a legal tender could be made only in the coin of *that metal* which was con-

<sup>1</sup> Much light has been thrown upon this question by modern investigations. See Rogers's *History of Agriculture and Prices*.

sidered as the measure of value. In England, gold was not considered as a legal tender for a long time after it was coined into money, and the proportion between the values of gold and silver money was left to be settled by the market;<sup>1</sup> and copper at present is not a legal tender, except in the change for the smaller silver coins, p. 41.

The proportion between their respective values, as for example, between a guinea and 21 shillings, is now settled by law; hence the distinction between the metal which is standard, and that which is not the standard, becomes *little more than a nominal distinction*. In consequence of any change in this *regulated proportion*, this distinction becomes *something more than nominal*. If the value of a guinea were reduced to 20 shillings, or raised to 22 shillings, payments might still be made for debts in silver as before, but would require different quantities of gold. Silver would appear to measure the value of gold, but gold would not appear to measure the value of silver. This difference would be owing to the custom of keeping accounts, and of expressing the amount of all great and small sums rather in silver than in gold money. A note for 50 *guineas* would be payable with 50 guineas; and if the custom of keeping accounts, and of expressing promissory notes in this

<sup>1</sup> From 1257, when gold was first coined in England, to 1664, when the first guineas were struck, the rate at which gold should exchange for silver was fixed by proclamation from time to time. From 1664 to 1717 matters were allowed as a rule to settle themselves, though a maximum number of shillings at which gold should be received in payment for the taxes was sometimes fixed.

In 1717 the rate was fixed at 21*s.* for a guinea. As gold was by this rule somewhat over-valued, the double standard was little more than nominal, for all large payments were of course made in gold, or in worn silver, since to pay in silver coin of full weight would have been to make your creditor a present of the difference.

In 1774 it was enacted that silver should not be legal tender above 2*st.* (excepting by weight), whilst in 1816 silver was over-valued in respect of gold, 1 lb. Troy of standard silver being coined into 66 shillings, and legal tender therein limited to the sum of 40*s.* See *Treatise on Coins of the Realm*, by Lord Liverpool.

manner should become general, *gold*, and not silver, would be the metal peculiarly the measure of value, p. 42.

In reality the value of the most precious metal regulates the value of *the whole coin*.<sup>1</sup> Twelve copper pence, which, before they are coined, are worth but sevenpence in silver, will in the market fetch one shilling; and 21 defaced shillings are equivalent to a guinea, p. 43.

In the English mint a pound weight of gold is coined into  $44\frac{1}{2}$  guineas. An ounce of such gold is therefore worth  $3l. 17s. 10\frac{1}{2}d.$  Before the reformation of the gold coin, the price of standard gold bullion had been from  $3l. 18s.$  to  $4l.$  an ounce; since that time the market price seldom exceeds  $3l. 17s. 7d.$  an ounce. The late reformation of the gold coin has therefore raised the value of gold and silver coin, pp. 43–44.

In the English mint a pound weight of standard silver is coined into 62 shillings. Five shillings and two pence an ounce is the mint price of silver. Before the reformation of the gold coin, the market price for standard silver was from  $5s. 4d.$  to  $5s. 8d.$  per ounce; but since it has been from  $5s. 3d.$  to  $5s. 5d.$  an ounce, silver bullion has not fallen so low as the mint price, p. 44.

In English coins, copper is rated very much above its real value, and silver is rated somewhat below it. In the market of Europe, in the French and Dutch coin, an ounce of fine gold exchanges for about 14 ounces of fine silver. In the English coin it exchanges for about 15 ounces, that is for more silver than it is worth, according to the common estimation of Europe. But as the price of copper in bars, even in England, is not raised by the high price of copper coin, so the price of silver in bullion is not sunk by the low rate of silver in English coin, pp. 44–45.

Upon the reformation of the silver coin in the reign

<sup>1</sup> This is rather due to mint regulations excluding a particular metal from use by under-valuing it. See Rogers, *note*.

of William III. the price of silver bullion continued to be somewhat above the mint price, (occasioned, as Mr. Locke thought, by the permission granted of exporting silver bullion, *but not coin*),<sup>1</sup> which would probably be the case now, were silver coin brought as near its standard weight as gold. In which case there would be a profit in melting it down; an inconvenience which would require some remedy, p. 45.

The inconveniency would be less, if silver were rated in the coin as much above its proper proportion to gold as it is at present below it; provided that silver should *not* be a legal tender for *more than the change of a guinea*.<sup>2</sup> No creditor would in that case be cheated in consequence of the high valuation of silver in coin. Bankers *only* would suffer by this regulation, as not being able to gain time by paying in sixpences, and this would be a considerable security to the creditors. It may be thought that 3*l.* 17*s.* 10*d.* containing only an ounce, should not purchase more than one ounce of bullion. But coin is more *convenient* than bullion; and the time it takes in coining is equivalent to a *small duty*, which renders coin *more valuable* than bullion, p. 46.

A *small duty* upon coinage might increase the superiority of the metals in coinage above an equal quantity of them in bullion, which would prevent the melting down the coin, and would discourage its exportation; and what was exported would return of its own accord, p. 47.

The occasional fluctuations in the market price of gold and silver bullion arise from the same causes as the like fluctuations in that of all other commodities. From the loss of these metals by land and sea;—from the continual waste of them—and from the wear and tear of the coin, a *continual importation* is required,

<sup>1</sup> The exportation of gold and silver coin is now free, by an Act passed in 1819.

<sup>2</sup> This suggestion has been acted upon. See page 17, *note*.

which merchant importers will endeavour to make a good account of, p. 47.

Money is more or less an accurate measure of value, according as the current coin is more or less exactly agreeable to its standard. In England  $44\frac{1}{2}$  guineas are contained in a pound of standard gold, that is in 11 ounces of pure gold and one of alloy. But if by wear they contain less than a lb. weight of standard gold, the measure of value becomes liable to the same sort of uncertainty to which other weights and measures are exposed. The merchant will, therefore, adjust the price of his goods, not to what those weights and measures ought to be, but to what he finds by experience they actually are. By the *money price* of goods, is to be understood the quantity of pure gold or silver for which they are sold without regard to the denomination of coin. In the time of Edward I. 6s. 8d. was considered as the same *money price* with a pound sterling at present, because it contained the same quantity of pure silver,<sup>1</sup> pp. 48-49.

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## CHAPTER VI.

### Of the component parts of the price of Commodities.

IN the early state of society, the proportion between the quantities of labour, necessary for acquiring different objects, seems to be the only circumstance which can afford any rule for exchanging them for one another. Among hunters, if it requires twice the labour to kill a beaver which it does to kill a deer, *one beaver* should be worth *two deer*. What is the produce of two days' labour will be worth double the produce of one day's labour. But allowance must be made for that species of

<sup>1</sup> For a brilliant illustration of this chapter, see Macaulay's account of the great re-coining under William III. (*History of England*, cap. xxi.)

labour which is more severe than another; <sup>1</sup>—or for that which requires an uncommon degree of dexterity and ingenuity, because the talents necessary to the performance of the latter cannot be acquired without great application, p. 49.

In this state of things, the whole produce of labour belongs to the labourer, and the quantity of labour employed in acquiring any commodity must regulate the quantity of labour which it ought to purchase, p. 50.

When stock has accumulated in the hands of particular persons, some will naturally employ it in setting to work industrious people, in order to make a profit by their work. In exchanging the *complete manufacture* over and above the price of the materials, and the wages of the workmen, there must be the profits to the undertaker of the work, who hazards his stock in this adventure. The value added by the workmen to the materials is, first, *the wages*, and secondly, the profits of the employer, which must be in *proportion* to the extent of his stock, p. 50.

The *profits of stock* cannot be resolved into the wages of the *labour of inspection and direction*; since this labour may be nearly equal in a manufactory whose annual stock does not amount to 1,000*l.* per annum, as in another where 7,000*l.* is employed; the profit of the former at 10*l.* per cent. being 100*l.* and that of the other 700*l.* In great works, the labour of inspection is committed to some principal clerk; his wages express the value of this labour, although regard is commonly had to the *trust* reposed in him, as well as to his labour and skill: but this never bears any proportion to the *capital* of which he has the management; and the owner, though discharged of all the labour, expects that *his profits should bear a regular proportion* to his capital. In the *price* of commodities, therefore, the

<sup>1</sup> Of course it is necessary (as Rogers remarks), ‘that the product of the labour should be in demand.’

*profits of stock* constitute a component part, different from the wages of labour, *and regulated by different principles*,<sup>1</sup> p. 51.

In this state of things the whole produce of labour *does not belong* to the labourer; he must *share* it with the owner of the stock which employs him, p. 52.

As soon as the land in any country becomes private property, the landlords demand a price for its natural produce; consequently, what *formerly* cost the labourer only the trouble of gathering, has a price fixed on it, and he must give his landlord a portion of what his labour collects or produces, which constitutes the rent of land, and is a *third component part*,<sup>2</sup> p. 52.

The real value of all the different component parts of price is measured by the quantity of labour which they can command. Labour measures the value, not only of that part of price which resolves itself into *labour*, but of that which resolves itself into *rent*, and of that which resolves itself into *profit*. The price of every commodity finally resolves itself into *some* or *all* of those three parts. In the price of corn, one part pays the wages and maintenance of labourers and cattle, another pays the rent to the landlord, and a third pays the profit of the farmer. A fourth part, it may be thought, perhaps, is necessary for replacing the *stock*: but this is made up of the same three parts: as the price of a horse, for instance, consists in the rent of the land upon which he is reared, the labour of rearing him, and the profits upon the rent and labour, pp. 52–53.

In the *price of flour*, there must be added to the

<sup>1</sup> In the case here given the gross amount of their profits is different, but the rate is the same. Rogers very justly remarks in his note on this passage, ‘In those cases in which the labour of superintendence can be safely committed to subordinates, it will always be found that the business is of that character in which good-will or connection is a conspicuous element.’ See also Rogers’s *Manual of Political Economy*, cap. xi. p. 184.

<sup>2</sup> Adam Smith was mistaken on this point, since rent is not an element of the price of agricultural produce. See Fawcett, p. 129. Mill, ii. 16, 6.

price of corn, the profits of the miller, and the wages of his servants; in that of the baker, his profits and the wages of his servants; and in the price of both, the labour of carriage from the farmer to the miller, and from him to the baker, p. 53.

The *price of flax* resolves itself into the same three parts as that of *corn*; in the price of linen, we must add the wages of the flax-dresser, spinner, weaver, &c., with the profits of their employers: consequently, in the progress of the manufactures, that part of price which resolves itself into *wages* and *profits* comes to be greater in proportion to that which resolves itself into rent. Not only the number of profits increase, but **every subsequent profit is greater than the former, because the capital employed must be greater**, p. 53.

The *price of some commodities* resolves itself into two parts, as that of sea-fish; one part pays the labour of the fisherman, and the other the profits of the capital. *Rent* seldom makes a part, but in salmon fishery it does.<sup>1</sup> Some persons make a trade in gathering Scotch pebbles, the price of which is *altogether the wages of their labour*,<sup>2</sup> p. 54.

As the price of every particular commodity, taken separately, resolves itself into some, or all of those three parts, so does that of all the commodities which compose the annual labour of every country. *Wages*, *profit*, and *rent* are the three original sources of all revenue, as well as of all exchangeable value. Whoever derives a revenue from a fund which is his own, must draw it from his labour, from his stock, or from his land. That derived from *labour* is called *wages*; that derived from *stock* is called *profit*, if he employs it himself; if lent to another it is called *interest*, in this case part of

<sup>1</sup> This is not the case unless salmon are at a 'scarcity' value. See Mill, iii. 5, 3.

<sup>2</sup> This is not true, unless we assume that the maintenance and education of labour are not investments of capital. See Rogers, *note*, p. 283.

the profit must go to the *borrower*, who takes the risk and labour, and part to the *lender*, who affords him the opportunity of making this profit. The revenue which proceeds from land is called *rent*. All taxes, salaries, and pensions, are derived from some of these three original sources of revenue, pp. 54–55.

When these three sources of revenue belong to one man they are sometimes confounded. A gentleman farmer should, after paying the expenses of cultivation, gain the *rent* of the landlord, and the *profit* of the farmer; he is apt to denominate the whole gain ‘*profits*.’<sup>1</sup> Most of the West Indian planters are in this situation, p. 55.

Common farmers seldom employ any overseer; and even do much of the labour themselves:<sup>2</sup> besides then the *common profits*, they should receive wages as labourers and overseers; in this case, *wages* are often confounded with *profit*. The same may be said of an *independent manufacturer*, and of a *gardener*, who cultivates his own garden with his own hands, pp. 55–56.

As in every civilised country, the value of few commodities arises from *labour* only, *rent* and *profit*<sup>3</sup> contribute largely to most of them, so the annual produce of its labour will be always sufficient to purchase a greater quantity of labour than what was employed in bringing that produce to market. If the society was to employ all the labour which it can annually purchase, the produce of every succeeding year would be of vastly greater value than that of the foregoing. But no country employs all its annual produce in maintaining the industrious. The *idle* every-

<sup>1</sup> Hence the productiveness of slave labour and of ‘peasant proprietorship’ have often been over-rated.

<sup>2</sup> Owing to the extension of the large-farm system, this statement is not so near the truth as it was in Adam Smith’s time.

<sup>3</sup> Rent does not enter into the price of commodities, nor does profit. They are results of price. See Rogers’s note on passage.

where consume a great part of it,<sup>1</sup> and according to the proportion in which it is divided between those two orders, its **average value** must increase, or diminish, or continue the same from one year to another, pp. 56–57.

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## CHAPTER VII.

### Of the natural, and market price of Commodities.

THERE is in every society an **AVERAGE RATE** of *wages*, and *profit* in every different employment of labour and stock, which is regulated by the circumstances of the society ; viz. their *advancing*, *stationary*, or *declining* state ;—or by the nature of the employment. There is also an **average rate of rent**, regulated by the circumstances of the society, or by the fertility<sup>2</sup> of the land. These may be called the **natural rates** of *wages*, *profit*, and *rent*.

When the price of a commodity is neither more nor less than what is sufficient to pay the *rent of the land*, the *wages of labour*, and the *profits of stock*, it may be called the **natural price**; it is then sold for precisely its worth, or what it really cost the person who brings it to market. If he sells it at a price which does not allow him the average rate of profit in his neighbourhood, he is a loser by the trade; since by employing his stock some other way he might have made that profit. His profit besides, is his *revenue*; unless therefore his goods yield him this profit, they do not repay him what they cost him. Though the price which leaves this profit is not always the lowest for

<sup>1</sup> If Adam Smith's account of Holland be correct, this dictum can scarcely have been applicable to that republic. Perhaps few men would work hard, but for the hope of leisure.

<sup>2</sup> 'Productiveness' would have been a more accurate expression than fertility.

which he *could* sell, yet it is the lowest at which he is likely to sell for any considerable time, pp. 57-58.

The actual price of any commodity is called its *market price*, and may be above or below its natural price. The *market price* of a commodity is regulated by the *quantity* actually brought to market, and the demand of those who are willing to pay the *natural price*, which demand may be called the *effectual demand*, and is different from the *absolute demand*. When the quantity falls short of the *effectual demand*, a *competition* must take place, which will be more or less eager, according as the commodity is of more or less importance.<sup>1</sup> When the quantity exceeds the *effectual demand*, it cannot all be sold to those willing to pay the *natural price*; which must reduce the price of the whole, in proportion to the excess of the commodity, or as it is more or less important to get *immediataly* rid of it. But when the *quantity* is just sufficient to supply the *effectual demand*, then the *market price* is the same as the *natural price*, pp. 58-59.

The *quantity* of every commodity suits itself to the *effectual demand*. It is the interest of the sellers, that it should not exceed this: and of the people at large, that it should never fall short of that demand. And if at any time it *exceeds*, or fall short, of the *effectual demand*, by the exertions of *landlords*, *labourers*, or those who employ them, it will soon be brought to its *natural price*, which may be termed its *central price*, to which the prices of all commodities are gravitating, pp. 59-60.

The whole *quantity* of industry annually employed aims at supplying the *effectual demand*. But in some

<sup>1</sup> The prices of articles at the two extremities of the scale (viz., absolute necessities, and luxuries the taste for which is confined to a small class), are affected in a much higher ratio than that of their deficiency or excess. See Mill, iii. 3, 2, and Rogers, *note*, for a further criticism of this passage. Also Cairnes, *Leading Principles of Political Economy*, pp. 112 et seq., and Mill in *Fortnightly Review* for May 1869. As to the oscillation of the market about the natural price, see Mill, iii. 3, 1.

employments, the *same quantity of industry* will in different years produce different quantities of commodities, as the case of *corn, wine, hops, &c.* But the *same number* of spinners and weavers will produce *equal quantities of cloth*.<sup>1</sup> In the one species of industry, the *average* produce must be suited to the effectual demand, consequently the market price will be subject to great fluctuations. In the other species of industry the produce can always be suited to the effectual demand; the *price of this species of commodity* varies only with the variations of the demand; but that of the other with the variation of the demand and the quantity brought to market. **Temporary fluctuations** in the market price fall chiefly upon those parts of price which resolve themselves into wages and profit,<sup>2</sup> not that part which resolves itself into rent; because that is generally adjusted according to the average price of the produce. Such fluctuations affect the value either of *wages or profit*, according as the market is *over* or *under* stocked with commodities or labour. A public mourning raises the price of black cloth, but not the wages of the weavers. It raises the wages of journeymen tailors, but sinks the price of coloured cloths, and the wages of the people employed in preparing them, pp. 61–62.

When by an increase in the effectual demand, the *market price* is a good deal above the *natural price*, those interested in this change are careful to conceal it, to prevent new rivals employing their stocks in the same way. **Secrets** of this kind can seldom be long kept, nor the extraordinary profits be long retained after the secret is known, pp. 62–63.

<sup>1</sup> In Adam Smith's time of *study* improvements in manufacturing processes were not very frequent.

<sup>2</sup> If the risk involved is that of frequent fluctuation, it will cause prices to be higher than they otherwise would be (in accordance with the rules laid down in Cap. x. part 1). But the difference will seldom be in full proportion to the risk, owing to the gambling propensities of human nature. See Mill, ii. 15, 4.

**Secrets in manufactures** may be longer kept than those in trade. A dyer may find materials to produce a particular colour at half the price of those commonly made use of; with care he may keep it as long as he lives, and leave it to his posterity. His extraordinary gains arise from the high price of his labour;<sup>1</sup> and may be called *extraordinary profits*, p. 63.

**Some natural productions** require a particular soil, so that all the land in the country may not produce sufficient to supply the *effectual demand*, consequently it will be sold above its *natural price*, and that part of it which resolves itself into *rent* will be paid above its natural rate; such are some of the vineyards in France. Enhancements of the market price depending upon the *natural causes* may operate for ever, pp. 63–64.

A **monopoly** has the same effect as a *secret* in trade. The monopolists by *never* supplying the *effectual demand*, sell their commodities above the natural price, and raise their emoluments both in wages and profit above their natural rate. The **price of monopoly** is the *highest which can be got*;<sup>2</sup> the natural price is the *lowest which, on an average, can be taken*, p. 64.

The **exclusive privileges** of corporations, statutes of apprenticeship, and all those laws which restrain, in particular employments, the *competition* to a smaller number than might, otherwise, go into them, have the same tendency. They are a sort of monopoly, which may, for ages, keep up the *market price* of commodities above the *natural price*. Though the *market price* of any commodity may continue *long above*, it cannot continue *long below* its *natural price*; as the losing party, if perfectly free, would immediately withdraw either so much *land, labour, or stock*, from being employed

<sup>1</sup> His extraordinary gains arise from the fact that he alone is able to employ a process cheaper than that of his rivals, whilst disposing of its products at the same price as they.

<sup>2</sup> Not always, e.g. the Post Office. See Rogers, *note*.

about it, that the quantity brought to market should be only sufficient to supply the effectual demand, p. 65.

The statutes of apprenticeship, and corporation laws, enable the workman sometimes to raise his wages above their natural rate: at other times oblige him to let them down below it. As they exclude many people from his employment, they also exclude him from many other employments. The effect in *raising* the wages may endure for centuries; but that of lowering them can only last the lives of some of the workmen bred to the business during its prosperity; when *they* are gone, the number, if there be no restraint, will suit itself to the effectual demand, pp. 65–66.

The natural price of a commodity varies with the natural rate of its component parts; which varies according to the riches or poverty of the society. The causes of these variations will be explained in the four following chapters, p. 66.



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## CHAPTER VIII.

### Of the wages of Labour.

THE PRODUCE of labour constitutes its *natural* wages. In the *original state of things*, the whole produce belonged to the labourer. He had neither landlord nor master. Had this state continued, the wages would have increased, with all the improvements to which the *division of labour* gives occasion, and all things would have become cheaper, in proportion as they were produced by smaller quantities of labour, p. 67.

Though all things would have become cheaper in reality, in *appearance* many things might have become dearer than before, or have been exchanged for a greater quantity of goods. If, for example, in the greater part

of employments, the productive powers of labour had been improved ten-fold, and in some other only two-fold, it is evident that ten times the quantity of work in the former must be given for only double the original quantity in the latter; which would make it *appear* five times dearer than before, though in *reality* it would be twice as cheap, pp. 67–68.

The state of things in which the labourer enjoyed the whole produce of his own labour could not last beyond the first appropriation of land, and the accumulation of stock. When land becomes private property, the landlord demands his share of the produce, as rent.<sup>1</sup> The maintenance of the labourer is also advanced out of the stock of the farmer, whose profit makes a second deduction from the produce of the labourer which is employed upon land. The produce of almost all other labour is liable to like deductions of profit. In manufactures, workmen stand in need of a master to advance them materials, and wages; this master consequently shares in the produce of their labour. It sometimes happens that a workman is so far independent as to purchase materials, and maintain himself till it is completed; he then enjoys the whole produce of his labour, including the *profits of stock, and wages of labour*,<sup>2</sup> pp. 68–69.

The common wages of labour depend upon the agreement made between the parties, whose interests are not the same. The *workmen* desire to get as much as possible, the *masters* to give as little as possible;

<sup>1</sup> Unless the produce of agriculture exceeds the cost of production, the share of the lord will not be called rent, but a tax. The difference is not unimportant in a political point of view. If the sense of ownership be in the tenant, he is apt to resist any impost. But if the sense of ownership be in the lord, the tenant will often readily pay a much larger amount. See Maine's *Early History of Institutions*, 123, 124.

<sup>2</sup> For full statements of the theory of the wages fund, see Fawcett, cap. iv. Mill, i. 4.

It is vigorously assailed by Thornton, *On Labour*; partly given up by Rogers (*note* to ii. 5); but defended by Cairnes (*Leading Principles of Political Economy*, p. 184).

the *former* are disposed to combine in order to raise, the *latter* in order to lower, the wages of labour, p. 69.

The masters being few in number more easily combine ; the law does *not* forbid their combinations, while it prohibits those of the workmen.<sup>1</sup> Besides, the masters can hold out the longest ; though the workman may be as necessary to the master as his master is to him, the necessity is not so immediate, p. 70.

The combinations of masters, though rarely heard of, are not less frequent than those of workmen. There is almost everywhere a tacit combination among them not to raise the wages of labour, and because it is *usual* nobody hears of it. And sometimes they combine to sink the wages of labour, which is done with the utmost secrecy ; and when the workmen yield without resistance, it is not known to other people. To violate this combination is everywhere a most unpopular action, and a reproach to a master among his neighbours and equals.<sup>2</sup> The combinations of workmen, whether under the pretence of the high price of provisions, or of the great profits made by their masters, are attended with clamour and violence ;<sup>3</sup> against which the assistance of the magistrate is demanded. The workmen accordingly seldom derive any advantage from those combinations, being obliged, either from the power of the magistrate, the steadiness of the masters, or their own indigence, to submit.<sup>4</sup> There is a rate, however, below which it seems impossible to reduce the ordinary wages of labour, pp. 70-71.

<sup>1</sup> This is no longer true, the said laws having been repealed in 1824 by 5 George IV. cap. 95. See Rogers's *Political Economy*, cap. 9, and *History of Agriculture and Prices*, vol. i. cap. 15.

<sup>2</sup> See Fawcett, p. 248, and Clifford on the *Agricultural Lock-out in the Eastern Counties*.

<sup>3</sup> The Sheffield trade outrages seem to have been among the last relics of the old state of affairs in this respect. See Thornton's *Labour*, p. 216.

<sup>4</sup> The masters, being few and wealthy as compared with the men, they can both combine and resist more easily. But, on the other hand, the men have greater powers of coercing each other, and often more

**A man must live by his labour.** His wages must do more; they must enable him to *bring up* two children. But as half the children born die before the age of manhood, the wages of the labourer must be sufficient to enable him to attempt to rear four children, the maintenance of which may be equal to that of one man, pp. 71-72.

Circumstances, sometimes, enable the labourer to raise his wages above this rate, which is the *lowest* consistent with humanity. When the demand for those who live by wages is increasing, there will be a competition among the masters to get workmen. This demand will be in proportion to the *funds* destined for the payment of wages, which are of two kinds :

(1.) The revenue, which is more than necessary for the maintenance ; and

(2.) The stock, which is more than necessary for the employment, of their masters.

A man who has more *revenue* than sufficient to maintain his family employs the surplus in maintaining one or more menial servants. Thus also an independent workman will, with his surplus *stock*, employ journeymen in order to make a profit by their work. The demand, therefore, for those who live by wages increases with the increase of the revenue and stock of every country, or with the increase of national wealth, pp. 72-73.

It is not in the richest countries, but in the most thriving,<sup>1</sup> that the wages of labour are highest. England is richer than America, but the wages of labour are higher in the latter than in the former. The price of provisions is much lower in America than in England.<sup>2</sup> A dearth has never been known there. The money price mutual confidence. For an able sum up of the whole question, see Thornton, Book iii, chap. 3.

<sup>1</sup> i.e. In which the circulating capital is increasing most rapidly in comparison with the number of labourers.

<sup>2</sup> This was written in 1773.

being higher there than here, the real price must be higher in a still greater proportion. Though England therefore be the richer, America is the most thriving, p. 73.

The most decisive mark of the prosperity of any country is the increase of the number of its inhabitants. In Europe they are not doubled in 500 years,<sup>1</sup> but in America they double in 25 years; and this increase is found to be principally owing to the great multiplication of the species. A numerous family is a source of opulence to the parents; the labour of each child is computed to be worth a hundred pounds clear gain to them. A young widow with four or five children is frequently courted as a sort of fortune. This value of children is the greatest of all encouragements to early marriage; the increase occasioned by such early marriages is not sufficient to supply the continual increasing demand for labourers, p. 74.

When the wealth of a country has been long stationary, the wages of labour will not be high. The revenue and stock may be of the greatest extent: but if they have been long so, an increase of labourers would not be wanted; the number would even multiply beyond their employment, and the wages be reduced to the *lowest rate which is consistent with humanity*.<sup>2</sup> CHINA, the richest country in the world, is, perhaps, the worst for a labourer to bring up a family in. He is contented with a small quantity of rice for the labour of a whole day. The artificer there runs through the streets begging employment, and many

<sup>1</sup> Since Adam Smith's time the population of England and Wales has increased in a much more rapid ratio. According to King and Finlaison, the population at the latter end of the seventeenth century did not exceed five millions and a half. In 1801 it was 9,156,171; in 1841, 16,035,198; in 1871, 22,712,266.

<sup>2</sup> In this paragraph the theory of Malthus is foreshadowed. For a sharp attack on this theory, see Rogers's *Political Economy*, cap. viii. For a defence, see Mill, ii. 11, 6. For a sketch of its history, see Twiss's *General View*, Lecture VII.

thousand families live in little fishing boats, whose subsistence is the refuse thrown from the European ships. Marriage in China is encouraged not by the value of children, but by the liberty of destroying them. Yet China does *not* seem to go backwards either in its number of inhabitants, or in the cultivation of its lands; consequently, the annual labour, and the funds destined to maintain it, must be nearly the same,<sup>1</sup> pp. 75-76.

But in a country where the funds destined for the maintenance of labour were sensibly decaying, the demand for servants and labourers would be less every year. Many in the superior classes would be glad of employment in the lowest, which must reduce the wages of labour to the most miserable subsistence of the labourer, and multitudes must either starve or gain a subsistence by begging, or by the perpetration of enormities. Famine and mortality would eventually reduce the inhabitants to that number which could be maintained by the revenue and stock left, and which had escaped the tyranny or calamity which had destroyed the rest. Such is the present state of Bengal, and other English settlements in the East Indies,<sup>2</sup> pp. 76-77.

The liberal reward of labour is the effect, and also the natural symptom, of increasing national wealth. The scanty maintenance of the labouring poor is the natural symptom that things are at a stand; and their starving condition, that they are going backwards, p. 77.

In Great Britain the wages of labour seem to be

<sup>1</sup> Adam Smith, misled by the Jesuit travellers, over-estimated the wealth of China. That a country should have arrived at the stationary state when the returns to capital are still so high as is indicated by a legal rate of interest of 12 per cent., shows great lack of self-denial for the sake of distant advantages. See Mill, i. 11, 3.

<sup>2</sup> Adam Smith evidently refers to the terrible famine which desolated Bengal in 1770. It was caused, not by misgovernment, but by a dry season. Living on rice, the people had no cheaper food to which they could descend. Rogers, in his note on this passage, remarks, with much justice, ‘Whenever the inhabitants of any country are content to live on the cheapest kind of food, they are always, however thrifty they may be, within risk of famine.’

more than what is precisely necessary to enable the labourer to bring up a family. For,

(1.) There is a distinction between winter and summer wages, summer wages being highest; but the expenses of a family are greatest in winter. Wages, therefore, seem to be regulated by the quantity of work done, and not by the necessities of the workmen.

(2.) The wages of labour do not fluctuate with the price of provisions, which must be the case if they were no more than necessary to the maintenance of the labourer.

(3.) As the price of provisions varies more from year to year than the wages of labour, so the wages of labour vary more from place to place than the price of provisions.<sup>1</sup>

Things sold by retail are as cheap in town as in the country, but the wages of labour are 1-4th or 1-5th higher in a great town than at a few miles' distance. This difference of prices is not sufficient to transport a man from one place to another, though it would the most bulky commodities, from one end of the kingdom to the other, so as to reduce them to a level.

(4.) The variations in the price of labour not only do not correspond either in place or time with those in the price of provisions, but they are frequently quite opposite, p. 79.

Grain, the food of the common people, is dearer in Scotland than in England; but the price of labour is dearer in England than in Scotland.<sup>2</sup> If then the labouring poor can maintain their families in one part of the kingdom, they must live in affluence in the other. During the last century, grain was dearer both in Great

<sup>1</sup> Although wages do not in general fluctuate with the price of bread, some remarkable exceptions occur, due chiefly to the action of the Poor Law and the fear of the farmers, lest men should come on the rates. See also Fawcett, 236. Much information on the condition of the labouring poor in Adam Smith's time is to be found in the *Tours of Arthur Young*.

<sup>2</sup> These statements have now ceased to be true.

Britain and France than during the present ; but labour was much cheaper, owing to the greater demand for labourers, occasioned by the improvements in agriculture and manufactures. Lord Hales, in the reign of Charles II. computes the *necessary* expenses of a labouring family of six persons at 26*l.* a-year, which, if they cannot earn, they must make up by begging or stealing ; and Mr. King, in 1688, agrees very nearly with Lord Hales : since which, both the income and expenses of such families have considerably increased ; but to what amount it is not easy to determine, unless where wages are regulated by laws ; and experience shows that the laws never regulate them properly,<sup>1</sup> pp. 79–82.

The real recompence of labour has during the present century increased in a greater proportion than its money price. For not only grain is become somewhat cheaper, but potatoes do not cost half the price they did thirty or forty years ago ; the same may be said of garden stuff in general. Formerly apples and onions were imported from Flanders. Clothing and furniture are also cheaper. Soap, salt, candles, leather, and liquors are much dearer, *owing to the taxes laid upon them*,<sup>2</sup> but the increase of price in these does not compensate for the diminution of the price in other articles. The luxury also which extends itself to the lower ranks *may convince us that the real recompence for labour has augmented*, p. 82.

This improvement in the circumstances of the lower ranks of the people is certainly an advantage to the whole, since they make up the greater part of every society ; and no society can be happy of which the

<sup>1</sup> For a brilliant synopsis of the views of Hales and King, and more especially of Petty, see Macaulay's *History of England*, cap. iii. Thornton (*On Labour*, p. 10 seq.,) takes another view on the authority of Defoe's *Giving Alms no Charity*, and denies that the condition of the English labourer has, on the whole, improved during the last two centuries.

<sup>2</sup> This is now true of liquors alone. Soap, &c. have become cheaper since the repeal of the taxes laid on them.

greater part of the members are poor and miserable. Besides, equity requires that they who maintain the whole body of the people should be themselves tolerably well maintained, p. 83.

Poverty discourages marriage, but seems favourable to generation. Barrenness is very rare among those of inferior station. Luxury inflames the passions, while it weakens the powers of generation.<sup>1</sup> Poverty is extremely unfavourable to the rearing of children. In the Highlands of Scotland, mothers of twenty children frequently have not two alive. Among the poor in some places, one half the children born die before they are four years of age, and in almost all places, before they are nine or ten; and in parish charities the mortality is still greater, p. 83.

Every species of animals naturally multiplies in proportion to the means of subsistence. The scantiness of subsistence among the inferior ranks of people sets limits to the multiplication of the human species, *by destroying part of their children*.<sup>2</sup> The liberal reward of labour extends those limits in the proportion which the demand for labour requires. If this demand be continually increasing, marriage is encouraged. Thus does the demand for men regulate the production of men; in America it renders it rapidly progressive; in Europe it is slow and gradual, and in China it is altogether stationary, p. 84.

The wear and tear of a servant, being at the master's expense, the wages paid to journeymen must be such as may enable them to continue the race, according as the

<sup>1</sup> The truth of these dicta is somewhat doubtful. Doubleday, in his work on *Population*, takes the same view as our author, which is strongly opposed by Mill, i. 10, 2 seq., on the strength of the records of the English Peerage, a line of proof still more completely followed out by Macaulay in his two essays on Sadler (*Miscellaneous Writings*). The mortality, too, among children has been much diminished of late.

<sup>2</sup> In this passage Adam Smith notices the 'positive' check of Malthus, but not the 'preventive' check.

circumstances of the society require. The wear and tear of a free servant is LESS expense to the master than that of a slave. The fund destined for replacing the latter is managed by an overseer, who is likely to fall in with the luxury of the rich; that destined for the office with regard to the free man is managed by the free man himself, who will use it with strict frugality. *Experience also teaches, that the work performed by freemen comes cheaper than that performed by slaves,*<sup>1</sup> p. 85. The liberal reward of labour, therefore, is the effect of increasing wealth, and the cause of increasing population. The condition of the labouring poor seems the happiest in the *progressive state*; it is hard in the *stationary*, and miserable in the *declining state*,<sup>2</sup> pp. 85-86.

The liberal reward of labour increases industry. A plentiful subsistence increases bodily strength, and the hope of bettering his condition animates the labourer to exert that strength to the utmost. Where wages are high, the workmen are more diligent than where they are low; in some cases they are apt to over-work themselves. Soldiers (by no means the most industrious set of people) when liberally paid for their labour, by the piece, often hurt their health by excessive work. Excessive application is frequently the cause of idleness. Relaxation from great labour is the call of nature, which, if not complied with, is attended with dangerous consequences. Masters, therefore, have frequently occasion rather to moderate than to animate the application of their men,<sup>3</sup> perhaps also the man who works moderately,

<sup>1</sup> See Cairnes on *The Slave Power*, and Fawcett, Book ii. cap. 12. Also Rogers's note on passage.

<sup>2</sup> Mill (iv. 6, 1) gives a much brighter picture of the stationary state, and seems to think that it would be, on the whole, a great improvement on our present condition.

<sup>3</sup> This tender consideration, lest the labourers should hurt their health by excessive diligence, seems now to have passed over from the masters to the Trades Unions.

but constantly, executes the greatest quantity, pp. 86–87.

In cheap years, it is pretended, that workmen are more idle; in dear ones, more industrious than ordinary. But it is not likely that men would work better when they are ill fed than when they are well fed; besides, years of dearth are to the common people years of sickness and mortality. In years of plenty, servants frequently trust to their industry for subsistence. Masters are also encouraged by the increase of their funds to employ a greater number of workmen, which raises the price of labour in cheap years, p. 87. In years of scarcity, people are eager to return to service; but the high price of provisions disposes masters rather to diminish than increase the number of their servants. In such times, poor independent workmen are frequently obliged to become journeymen for subsistence; hence wages sink in dear years. Masters, therefore, make better bargains with their servants, and find them more humble and dependent in times of scarcity than of plenty; hence they commend the former as more favourable to industry; moreover, the profits of masters are greater in dear, than in cheap years, pp. 87–88.

M. Messance has shown, that, in the Woollen, Silk, and Linen manufactures more work is done in cheap than in dear years. It does not appear that there is any sensible difference in these respects in the Scotch Linen or Yorkshire Woollen manufactures. The produce of all manufactures *depends* upon the *demand* in the countries where they are consumed;—upon peace and war;—and upon rival manufactures. A great part of the extraordinary work of cheap years never enters the public registers. The men who leave their masters become independent workmen. The women return to their parents and spin and make cloaths for themselves and families; and the produce of their labour makes no figure in the public registers, pp. 89–90.

The money price of labour is regulated by the demand for labour; and by the price of the necessaries and conveniences of life. The demand for labour determines the quantity of the necessaries of life which must be given to the labourer; and the money price is determined by what is requisite for purchasing this quantity. Though the money price of labour is sometimes high where the price of provisions is low, it would be still higher if the price of provisions was high,<sup>1</sup> p. 90.

The increase in the wages of labour increases the price of many commodities, by increasing that part of it which resolves itself into wages, and thus tends to diminish their consumption both at home and abroad. The same cause which raises the wages of labour tends to increase its productive powers. The owner of stock endeavours to make such a division of employment as shall produce the greatest quantity of work. For the same reason he supplies his workmen with machinery: and what takes place in a particular workshop takes place in society. The greater the number of labourers the more they divide themselves into different classes of employment. Hence commodities are produced by so much less labour, that the increase of its price is more than compensated by the diminution of its quantity, pp. 91–92.

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## CHAPTER IX.

### Of the profits of Stock.

The rise and fall in the profits of stock depend likewise upon the increasing or declining state of wealth of the society. An increase of stock raises wages, but

<sup>1</sup> See Fawcett, 174; Mill, ii. 15, 7.

tends to lower profit. The stocks of several persons being turned into the same trade *produce competition*, which tends to sink the profit,<sup>1</sup> the same holds in society at large, p. 92.

Profit is so fluctuating, and depends upon so many circumstances, as to make it very difficult, almost impossible, to ascertain its rate even for a single year. The best notion of the profits of stocks may be formed from the interest of money. Where much can be made by money much will be given for the use of it,<sup>2</sup> pp. 92-93.

In the reigns of Henry VIII. and Elizabeth, ten per cent. was legal interest. By the 21st of James I. it was restricted to eight per cent. After the Restoration, it was reduced to six per cent.; and by the 12th of Anne, to five per cent. These regulations followed the market rate of interest. Since which, interest has been three and a half, four, and four and a half per cent. From the time of Henry VIII. the wealth of the country has been advancing, the wages of labour increasing, and the profits of stock diminishing,<sup>3</sup> pp. 93-94.

*Trade in a large town requires more stock than in a village; but owing to the number of competitors, the profits are less, and the wages of labour higher*, p. 94.

In Scotland, though the legal rate of interest is the same as in England, the market rate is higher. Trade can be carried on with smaller stock, and the wages of labour are lower; the rate of profit therefore must be greater. The country is not only poorer, but is not advancing so fast to a better condition,<sup>4</sup> p. 94.

The market rate of interest is higher in France

<sup>1</sup> Not from 'competition of capital,' but owing to an increased difficulty of applying capital to advantage. See Mill, iv. 4, 1 seq.

<sup>2</sup> See Fawcett, 158; Mill, ii. 15, 1.

<sup>3</sup> A remarkable revolution took place after the publication of the *Wealth of Nations*, and at the end of the long war the Government could not borrow under six per cent. Rogers is of opinion that the end of the reign of Elizabeth, rather than the reign of Henry VIII., ought to be fixed on as the commencement of steady progress in wealth.

<sup>4</sup> This cannot be said of the Scotland of the present day.

than in England ; the profits of trade are greater there than here, the wages of labour lower, and the condition of the lower people much worse, p. 95.

Holland, in proportion to its extent, is a richer country than England ; the rate of interest is much lower, the wages of labour higher, and the Dutch trade upon lower profits than any people in Europe.<sup>1</sup> The diminution of profits is the natural effect of prosperity, or of a greater stock being employed. The great property which the Dutch possess in the French and English funds, the sums they lend to private people in countries where interest is higher, denote that their stock has increased beyond what they can profitably employ in trade, p. 96.

In America the wages of labour, the interest of money, and the profits of stock, are higher than in England. High wages and great profits seldom go together, except in new colonies. In a new colony there is more land than stock. The most fertile only is cultivated, and that is often purchased at a price below the value of its natural produce ; stock thus employed will yield a large profit, afford to pay a large interest, and enable the planter to reward his labourers liberally,<sup>2</sup> p. 97.

As the colony increases, the profits diminish. Inferior parts come under cultivation, which yield less

<sup>1</sup> This is attributed by Mucculloch to the heavy taxation to which Holland was subjected. Rogers attributes the low rate of profit to the parsimony of the Dutch, coupled with their mode of transacting Eastern affairs. See Rogers's note on passage, and Macculloch's *Principles of Political Economy*, p. 494.

<sup>2</sup> Labourers working on a productive soil may be considered as using a highly efficient instrument of production. Hence, although the rate of wages may be high, the cost of labour is small. But it would have been more correct to say that 'the most productive only is cultivated.' This, in the early days of a colony, is usually the high and thin land, which yields a return to little labour.. The more fertile soils of the river bottoms require much labour to clear and drain them. See Mill, i. 12, 3.

profit; but the demand for labour, consequently the wages increase with the increase of stock. A great stock, with small profits increases faster than the small stock with great profits. **Money makes money**, p. 97.

The acquisition of new territory, or of new branches of trade, may raise the profits of stock, and with them the interest of money, even in a country fast advancing to riches. The accession of territory and trade to this country<sup>1</sup> caused the rate of interest to be raised nearly one per cent. the old stock not being sufficient to carry on the new business, p. 98.

The diminution of the capital stock of the society lowers the wages of labour, but raises the profits and interest of money. In the East Indies the wages of labour are low, *while the profits are immense*;<sup>2</sup> forty, fifty, and even sixty per cent. is frequently given for money there. Such was the case in the provinces belonging to Rome, before the fall of the republic. Brutus is said to have received forty-eight per cent. interest in Cyprus, pp. 98–99.

In a country which had acquired its full complement of riches, wages and profits would be low. For being fully peopled, *there would be no competition for labourers*:<sup>3</sup> and being stocked in full proportion to the business, the competition would be as great, *consequently the profits as low as possible*,<sup>4</sup> p. 99.

China seems to have been long stationary, owing more to its peculiar laws than to the nature of its climate and situation. There the rich only enjoy protection, while the poor have no security. Hence the

<sup>1</sup> After the Seven Years' War.

<sup>2</sup> Insurance against risk of loss was the chief element in this high rate of profit. See Fawcett, p. 158.

<sup>3</sup> In other words, labourers would have increased to the 'level of customary subsistence.'

<sup>4</sup> Accumulation would be checked, owing to the absence of sufficient motive to save. It has been said that 'one per cent. would make every man a spendthrift —cent. per cent. would make every man a miser.'

rich have a monopoly of trade, make large profits, and are said to give twelve per cent. interest,<sup>1</sup> pp. 99–100.

A *defect* in the law may sometimes raise the rate of interest. As when the law does not enforce the performance of contracts, the lender will require interest proportional to the risk of losing the principal: or *when the law prohibits interest*, its rate must be suitable to the danger of evading the law. Hence the high rate of interest among the Mahometans, p. 100.

The lowest rate of profit must be more than sufficient to compensate the losses to which the employment of stock is exposed. The lowest rate of interest must more than compensate the occasional losses to which lending is exposed, p. 101.

In a country where there was accumulated the greatest quantity of stock that could be employed, interest must be so low, that none but very rich persons could live on it. *Hence almost every man must engage in business.* Holland is approaching to this state,<sup>2</sup> p. 101.

The highest ordinary rate of profit may be only sufficient to pay the labour of preparing and bringing to market; for the workman must be supported while he is about his work, but the landlord may not always be paid; such may be the state of things in Bengal,<sup>3</sup> p. 102.

The market rate of interest ought to vary as profit varies. In Great Britain double interest is reckoned good profit among merchants. Where the usual clear profit is eight or ten per cent. one half may go for interest of money; but if it was much lower, one half

<sup>1</sup> See page 34, note 1.

<sup>2</sup> In a country of which the inhabitants were inclined to subordinate future prospects to present pleasure, the rate of interest would remain high. See Mill, i. 11, 3.

<sup>3</sup> Adam Smith refers to the private trade of the servants of the East India Company in Bengal. For an account of this trade and its suppression, see Macaulay's *Essay on Lord Clive*.

could not be afforded; and if the profits were much higher, more might be allowed for interest, p. 102.

In countries advancing to riches, 'the low rate of profit may compensate the high wages of labour. High profits<sup>1</sup> tend more to raise the price of work than high wages. In the former case the price is advanced in geometrical proportion, but in the latter only in arithmetical proportion, pp. 102–103.

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## CHAPTER X.

### Of the Wages and Profit in the different employments of Labour and Stock.

THE advantages and disadvantages of different employments, in the same neighbourhood, must be equal, or tending to equality; for if there were any employment more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, as would soon bring it to the level of other employments. *This must be the case in a society where things are left to follow their natural course.*

Pecuniary wages and profits are, in Europe, different in different employments; which arises partly from certain circumstances in the employments,<sup>2</sup> and partly

<sup>1</sup> Adam Smith saw clearly the faults of the manufacturers. On this, see also Cairnes (*Leading Principles of Political Economy*). British trade too often means capitalist's profits, as when Brassey (*Work and Wages*, p. 142) says, 'Dear labour is now the great obstacle to the extension of British trade.' It does not occur to him that high profits are an obstacle in the same sense.

<sup>2</sup> Rogers proposes to reduce the five conditions of Adam Smith to two—cost (2nd and 4th) and risk (1st, 3rd, and 5th).

Mill, whilst admitting the truth of Adam Smith's views on the causes of 'difference in the rates of wages in different employments,' in a favourable state of the labour market in general, or in the particular case of employments of 'about the same grade, and filled by nearly the same description of people,' denies their accuracy in the

from the policy of Europe, which nowhere leaves things at perfect liberty, pp. 103–104.

### PART I.

#### Inequalities arising from the Nature of the Employments themselves.

I. The wages of labour vary with the agreeableness or disagreeableness of the employments themselves. A journeyman tailor earns less than a collier. His work is not so dirty, is less dangerous, is carried on in daylight and above ground. Honour makes a great part of the reward of all honourable professions : disgrace has the contrary effect. In the advanced state of society, none but very poor people follow, as a *trade*, what others pursue as a *pastime*. This may be illustrated in the case of fishermen and poachers;<sup>1</sup> and where no poachers exist, the licensed hunter is not in a much better condition. The natural taste for those employments makes more people follow them than can live comfortably by them. The same circumstances affect the *Profits of stock*: inn-keeping is neither agreeable, nor very creditable ; but few common trades are so profitable, pp. 104–105.

II. The wages of labour vary with the ease or difficulty of learning the business. The work which a man learns to perform must, besides the wages of labour, replace the expenses of his education ; and this too in a reasonable time. Hence the difference in the

present state of affairs. For, when the supply of labourers exceeds the demand, none but desirable labourers will be able to exercise a choice as to the employment which they will accept. Hence the most revolting and repulsive labours will be performed by those who have no choice, and will of course be badly paid. See Mill, ii. 14, 1.

Burke seems to take a similar view. See his *Vindication of Natural Society*, attributed to Lord Bolingbroke.

<sup>1</sup> This illustration will also apply to gentlemen turners, gentlemen tailors, gentleman shoemakers, &c.

wages of mechanics and country labourers ; the labour of the former is supposed to be of a more delicate nature than that of the latter. The exercise of the one must be through an expensive apprenticeship ; the other is open to everybody, and the labourer besides is able to maintain himself through all the stages of his employment. Perhaps, however, the superiority of the mechanic is not greater than what will compensate the superior expense of his education. In the arts, and liberal professions, *education* is still more expensive ; the recompence ought therefore to be more liberal. In this case the *profits of stock* are very little affected, because all the different ways of employing stock seem *equally easy* to learn, pp. 106–107.

### III. The wages of labour vary with the constancy or inconstancy of employment.

In *manufactures*, a journeyman may generally depend on constant employment. The bricklayer is frequently without any, and liable to interruptions by bad weather. He must on that account earn sufficient to maintain him while he is idle, as well as when he works. Accordingly, in most places his wages are better than those of manufactures ; yet no labour seems more easy to learn.<sup>1</sup>

When *inconstancy of employment* is combined with hardship, disagreeableness, and dirtiness of work, it raises the wages of *common labour* above those of the most skilful artificers. A collier at Newcastle will earn double or three times the wages of common labour, though his employment may be constant. But the business of a coal heaver in London being necessarily *inconstant*, he will earn much more. The constancy

<sup>1</sup> The wages of bricklayers have increased to a remarkable extent. Indeed master builders (having from the nature of the trade a sort of local monopoly) lose little by yielding to the demands of their workmen since they can (in most cases) recoup themselves at the expense of their customers. See Thornton's *On Labour*, p. 265.

of employment does not affect the profits of stock. *The employment of stock depends not upon the trade, but the trader*, pp. 107-110.

**IV. The wages of labour vary according to the trust reposed in the workmen.**

The wages of goldsmiths and jewellers are superior to those of other trades requiring more ingenuity. Confidence cannot be reposed in people of very mean condition. Their reward must therefore be in proportion to the rank they hold in society. When a person employs his own stock in trade, there is no trust, consequently the rates of profit do not arise from the degree of trust reposed in the trader, p. 110.

**V. The wages of labour vary according to the probability of success.**

The degrees of probability of success are different in different employments. In mechanic trades, success is almost certain; but very uncertain in the liberal professions. In the study of the law, it is twenty to one if a youth succeeds so as to live by his business. The one which does succeed ought therefore to gain all that the unsuccessful twenty should have gained. Counsellors' fees never equal this. Compute in any place the annual *gainings* and *spendings* of a common trade, the former will be found to exceed the latter; but make the same computation with regard to counsellors and students of the law, and you will find, that the gains bear but a small proportion to the expenses. These professions keep their level, from

- (1) The desire of reputation which attends upon superior excellence; and
- (2) From the confidence which men have in their own abilities and good fortune.

To those who excel in any profession, public admiration makes a part of their reward; in the profession of physic it makes a part; a greater in that of law; and almost the whole, in poetry and philosophy, pp. 110-111.

The exercise of some agreeable talents, for gain, is reckoned discreditable ; the recompence in this case must be in proportion to the discredit which attaches to the employment. Hence the rewards of players, opera singers, &c. Should the public opinion alter, with regard to the occupations, the recompence would diminish, as numbers would apply to them, and the competition would reduce the price of their labour, p. 112.

The conceit which men have of their own abilities is not greater than their presumption in their own good fortune. To this may be ascribed the universal success of lotteries. A small sum is paid in hopes of gaining a great prize ; though that small sum is perhaps thirty or forty per cent. more than the chance is worth. In all lotteries, the more tickets you adventure upon, the more likely you are to be a loser, pp. 112-113.

That the chance of *loss* is undervalued, may be learnt from the small profits of insurers, either from fire, or sea-risk, few of whom have made great fortunes. Moderate as the premium of insurance is, few people, in comparison, care to pay it,<sup>1</sup> p. 113.

This presumption in good fortune is strongest in young persons ; hence the readiness of the common people to enlist for the army and navy. Romantic hopes make the price of their blood, their pay being less than that of common labourers, and their fatigues, in actual service, much greater. The lottery of the sea is *really* more advantageous than that of the army ; but less so in *common estimation*. Where the great prizes are less, the smaller ones must be more numerous. Sailors accordingly have better chances of some fortune and preferment than soldiers. Their gains, notwithstanding the hardships and dangers to which they are exposed, are, all things considered, but little more than

<sup>1</sup> The practice of insuring against risk from fire is much more common now than it was in Adam Smith's time.

equal to the wages of common labour. **Danger**, instead of disheartening, *frequently recommends* the trade to young people. **Hazard**, from which we may extricate ourselves by courage, *does not raise the wages of labour*. It is otherwise in unwholesome trades in which courage and address can be of no avail, pp. 114–115.

The rate of profits on stock varies according to the certainty of the returns. These are more certain in *inland* than in *foreign* trade. The rate of profit must vary with the risk, though seldom in proportion to it. Bankruptcies are most frequent in hazardous trades; which would not be the case if the profit were proportional to the hazard, p. 116.

Of the five circumstances which vary the wages of labour, *only the first and last affect the profits of stock*. Hence, the average *rate of profit*<sup>1</sup> is more nearly on a level than the pecuniary *wages of labour*. The apparent difference in the profits of different trades is generally a deception, for want of distinguishing between wages and profit. The extravagant profit (as it is called) of an apothecary is frequently no more than the reasonable wages of his labour; he being the physician of the rich in slight, and of the poor in all cases. His reward must be proportional to his skill and his trust; though it arises from the sale of his drugs, pp. 116–117.

A little grocer may make fifty per cent. on a small stock, while a considerable merchant in the same town, cannot make ten per cent. The trade of the former is necessary for the place, and he must live by his trade, and suitably to the qualifications it requires, which, in fact, are little inferior to those necessary for the merchant; his profits, therefore, are really wages of labour, and not unreasonable,<sup>2</sup> p. 117.

<sup>1</sup> Rogers proposes to limit the expression ‘Rate of Profit.’ See *Rogers’s Political Economy*, pp. 52, 132.

<sup>2</sup> Hence commodities purchased at shops are dear in small country towns.

The difference between the profit of retail and wholesale trade is less in large towns than in villages. Hence, goods sold by retail are as cheap or cheaper in the capital than in villages; for when the prime cost is the same, goods will be cheapest where the least profit is charged on them. Though the profits of stock are less in the capital than in the country, yet large fortunes are often acquired in the former, and very seldom in the latter. In villages, trade cannot be extended as stock extends; but this can always be done in the capital; and the *credit* of a frugal, thriving man, extends *faster* than this *stock*. Great fortunes are the result of a long life of industry. Sudden fortunes are sometimes made by *speculation*, a trade which can be carried on only in large towns, pp. 118–119.

In order that the five circumstances above mentioned may not occasion any inequalities in the *whole* advantages, or disadvantages, of different employments, three things are requisite.

I. The employments must have been long established: for wages are higher in new than in old trades, to induce workmen to leave their original employments. The former depends more upon fashion and fancy than the latter, and therefore the wages are likely to be higher.—New manufactures are speculations, which are as likely to fail as to succeed; therefore where they are successful, the profits are at first high; but when thoroughly established, they come to the level of other trades, pp. 119–120.

II. This equality can take place only in the natural state of employments.<sup>1</sup>

The demand for labour is sometimes greater and sometimes less than usual. In the one case, the advantages rise above, and in the other they fall below, the common level: as in time of war, when the demands of

<sup>1</sup> See the account of the Birmingham gun trade during the American Civil War. Fawcett, 344.

the royal navy frequently compel merchants to give their sailors double pay. On the contrary, *in a decaying manufacture, workmen are contented with smaller wages than usual.* The profits of stock vary with the price of the commodities in which it is employed. The quantity of industry employed in producing commodities is regulated by the demand. In some employments, the same quantity of industry will produce the same quantity of commodities; as in the linen and woollen manufactories. In them the variation of price must be accidental. In other employments, as the culture of corn, hops, &c., the same industry will, in different years, produce different quantities of commodities; the price must, in such commodities, vary with the demand, and also with the crop produced, pp. 120-122.

**III. This equality can take place only in such as are the principal employments of those who occupy them.**

A person subsisting by one employment may be willing to dedicate his *leisure* to another for less than is suitable to the nature of the employment. The *cottagers* in Scotland are out servants to their landlords; for whom they *occasionally* labour at very low wages.<sup>1</sup> The produce of such labour comes to market cheaper than is suitable to its nature. Thus stockings are knit, and linen spun, by labourers whose principal subsistence depends on some other employment. Instances of this sort are to be found chiefly in poor countries. An exception, perhaps, is the letting of ready furnished lodgings in London, where a tradesman is obliged to hire a whole house, and endeavours to pay part of the rent by letting the two middle stories, expecting to maintain his family by his trade, pp. 122-124.

<sup>1</sup> These people appear to have resembled the conacre tenants in Ireland, being in fact labourers whose wages were partly paid in land. The class is now nearly extinct in Scotland. As to conjoint products, see Mill, ii. 14, 3; iii. 16, 1.

*PART II.***Inequalities occasioned by the Policy of Europe.**

I. The policy of Europe, by restraining competition, renders the advantages of different employments unequal. This is effected by the privileges of corporations, which confine the trade to those who are free of them. The bye-laws of a corporation regulate the term of apprenticeship, and the number of apprentices any master is allowed to have at one time. The latter restrains the competition *directly*, the former *indirectly*, by increasing the expense of education, p. 125.

Seven years seem to have been the usual term of apprenticeship all over Europe. Incorporations and Universities were synonymous terms. The term of years, which it was necessary to study to obtain a degree of Master of Arts, appears to have been copied from the term of apprenticeship in common trades. Seven years were necessary to become a master or teacher in both, p. 126.

By the 5th of Elizabeth no person can exercise a trade, unless he has previously served seven years apprenticeship to it.<sup>1</sup> This restriction has been construed not to extend to villages. This statute affects only those trades which were established in England before the 5th of Elizabeth. The business of a coach-maker, and the manufactures of Manchester, Birmingham, and Wolverhampton, are not within this statute, p. 127.

In Paris, a man must serve five years as an apprentice and five years as a journeyman to be qualified to exercise a trade. In Scotland the term is very different in different corporations; three years is a common term even in nice trades; but in Scotland, the corporation laws are less oppressive than in any part of Europe, pp. 127-128.

<sup>1</sup> Although the Statute of Apprenticeship was repealed by 54 Geo. III., cap. 96, yet many of its evil results are in effect prolonged by means of the regulations of Trades Unions. See Fawcett, p. 241.

Every man's labour is his property; and this is the most sacred of all property. To hinder a man from working at what he thinks proper, or others from employing him, is a manifest encroachment on liberty. The affected anxiety of the lawgiver is as impertinent as it is oppressive. Long apprenticeships cannot prevent bad work from being offered to sale. The sterling mark on plate is a much better security, p. 128.

Long apprenticeships are inimical to industry. The sweets of labour consist in the recompence of labour; but this the apprentice does not enjoy, p. 129.

Apprenticeships were unknown to the ancients, there is no Greek or Latin word that will convey the idea which we annex to the term, p. 129.

Long apprenticeships are unnecessary. The arts of a trade do not require a long course of instruction; the lessons of a few weeks in most cases may be sufficient. *Dexterity must be acquired by practice*; but a youth would be more attentive if he were paid for his labour, and were required to pay for the materials which he spoiled. By this method, whether the master or apprentice were in the end gainers, the public certainly would reap the benefit. Corporations have prevented that free competition which is so necessary to the reduction of the profits of traders, pp. 129-130.

The government of towns corporate was in the hands of traders, whose interest kept the market understocked, which was of great advantage to them in their dealings with the country. Every town draws its subsistence and the materials of its industry from the country, which its pays for:—

- (1) *By sending back part of the materials manufactured:*
- (2) *By sending to that country part of the produce of other countries.*

In the gain on the first consists the advantage of its manufactures. In that of the second, the advantage

of its foreign trade. Wages and profits make up the gain upon both: whatever regulations therefore tend to increase these give a manifest superiority to the town over the country, pp. 131–132.

That the industry of *towns* is more advantageous than that of the *country* is evident from the many fortunes acquired in towns, to one in the country.<sup>1</sup> The inhabitants of a town can easily combine, and prevent a free competition even where there is no corporation. Trades which employ but a very small number of hands can do this most easily.<sup>2</sup> The inhabitants of the country are dispersed;—and an apprenticeship is not necessary to qualify for husbandry, though few trades require more experience and knowledge; hence the many volumes written on agriculture,—whereas a mechanic trade may be fully explained in a few pages, pp. 132–133.

The instruments of the mechanic are always the same, while those of the farmer, such as horses, oxen, and soil are different on different occasions. Agriculture seems to require a greater variety of knowledge, which, in general, renders the lower ranks in the country superior to those of towns,<sup>3</sup> pp. 133–134.

**The high duties on foreign manufactures are also an advantage to the industry of towns, where the inhabi-**

<sup>1</sup> The capitalists who reside in a town have greater opportunities of employing their capital to advantage, as our author has already shown. But it is doubtful whether industry is really better rewarded in towns than in the country.

<sup>2</sup> Adam Smith mentions the woolcombers as an example. Type-founders furnish another. See Mill, v. 10, 5.

<sup>3</sup> This dictum would scarcely be endorsed at the present day, and is in fact brought forward by Rogers to prove that the condition of the agricultural labourer has deteriorated since Adam Smith's time. It may be remarked that the interval between Adam Smith's birth and the date of the publication of the *Wealth of Nations* (1723–1776) nearly coincides with that which elapsed between 9 Geo. I. cap. 7, which discountenanced out-door relief, and 22 Geo. III. cap. 83 (Gilbert's Act), which encouraged that evil system. See Macculloch's edition of the *Wealth of Nations*, 5th edition, p. 599. It also to a great extent coincides with the remarkable series of fine harvests which lasted from 1715 to 1765. Mill, ii. 11, 2 n. Tooke's *History of Prices*, i. 38–61.

ants can raise the price of their goods without dread of competition. The enhancement of price in both, is finally paid by landlords, farmers and labourers, who have seldom either opposed monopolies, or entered into combinations themselves,<sup>1</sup> p. 134.

In Great Britain the superiority of the industry of towns over that of the country was greater formerly than now; owing to the accumulation of more stock in towns than can be employed with advantage. The surplus stock being brought into the country has created a new demand for labour, and consequently raised its wages. *Improvements in agriculture have been owing to the overflowings of stock accumulated in towns,* p. 135.

People of the same trade seldom meet together, even for diversion, without contriving to raise prices. Though the law cannot prevent such meetings, it ought not to facilitate them. Public registers have this effect: so also have regulations which enable the same trade to tax themselves in order to provide for the poor, sick, &c. An incorporation makes the act of the majority binding on the whole; whereas, in a *free* trade, an effectual combination requires the consent of every trader, p. 136.

**Corporations are not necessary to the good government of a trade.** They often have a contrary effect; hence in many incorporated towns good workmen are not to be found, p. 137.

**II. The policy of Europe renders the advantages of different trades unequal, by increasing the competition in some employments beyond what it would naturally be,** p. 137.

In Christian countries the greater part of the clergy are educated by public funds; hence the church is crowded with people, who, to get employment, accept

<sup>1</sup> The feelings of the agriculturists underwent a change during the long French war, if not earlier.

of a smaller recompence than is suitable to their education. The pay of a curate is of the same nature as the wages of a journeyman. In the fourteenth century the equivalent of 10*l.* was the usual pay of a parish priest. But the pay of a master mason was much superior, being a shilling a day, and that of a journeyman ninepence. Forty pounds a year,<sup>1</sup> is reckoned at present good pay for a curate; many have less than 20*l.* There are few industrious workmen who do not earn more. The law has often attempted to lower the wages of *workmen*; and to raise those of *curates*, but without effect, pp. 137–139.

Great benefices and dignities, and the respect paid to the profession, make compensation for the meanness of their pecuniary recompence.<sup>2</sup> In professions in which there are no benefices, such as law and physic, if an equal proportion of people were educated at the public expense, the competition would be so great as to make it worth no man's while to educate his son to either of those professions at his own expense, since practitioners must be contented with a miserable recompence. Such is the situation of that race of men called men of letters,<sup>3</sup> pp. 139–140.

Before the art of printing, a man of letters could only benefit, by his talents, as a public or private teacher. The qualifications necessary for a teacher of the sciences, are, at least equal to those requisite for a lawyer or physician, but his reward bears no proportion to theirs. Before the invention of printing, licences were granted to scholars to beg. In ancient times

<sup>1</sup> The clergy are at present educated more at their own cost than they were in Adam Smith's time, and the stipends of curates have increased threefold. This result may have been aided by a growing dislike to the restraints and responsibilities of the profession.

<sup>2</sup> See Sydney Smith's article in the *Edinburgh Review* for 1808. (Letter on the Curates' Salary Bill.)

<sup>3</sup> See Macaulay, *Review of Boswell's Life of Johnson*, and Cap. iii. of *History of England*.

before any charities had been established for the education of indigent people, the rewards of teachers were much more considerable. Isocrates appears to have had upwards of 3,000*l.* for each course of lectures. Gorgias, Plato, Aristotle, and others, acquired great wealth, by public and private teaching.<sup>1</sup> This inequality may degrade the profession of a public teacher, *but the cheapness of literary education must be of advantage to the public*, pp. 140–142.

III. The policy of Europe occasions inequalities in different trades by obstructing the free circulation of labour and stock, both from employment to employment, and from place to place.

These are affected by the statute of apprenticeship, and by the privileges of corporations. Whatever obstructs the free circulation of *labour* from one employment to another obstructs that of *stock* likewise. Corporation laws are less injurious to the free circulation of stock than that of labour, pp. 142–143.

The *obstructions occasioned by corporation laws are common to all Europe*. Those occasioned by the poor laws are *peculiar to England*. They consist in the difficulty which a poor man finds in being allowed to exercise his industry in any parish but his own, pp. 143–144.

After the destruction of monasteries by the 43rd Elizabeth, c. 2, every parish became bound to provide for its own poor. Hence a question arose who were to be considered as the poor of each parish; this was determined by the 14th of Charles II., when it was enacted that 40 days undisturbed residence should gain a person a settlement in any parish; during which time he was liable to be removed by the magistrate. By the 1st of

<sup>1</sup> We must not forget that there were no professional advocates at Athens, whilst any rich citizen might be brought by a sycophant before the Dikastery. Naturally therefore he would be willing to give a large fee to the teacher who grounded him in Rhetoric, thus become an important branch of the art of self-defence.

James II. this forty days was only accounted from the time such person should deliver notice in writing of the place of his abode, and the number of his family to a parish officer: and by the 3rd of William III. this notice was to be published at church after divine service. The design of these acts was evidently to prevent persons gaining settlements by the forty days notice, pp. 144-145.

By the same statute there are four other methods of gaining a settlement:

- (1) By paying parish rates;
- (2) By serving in a parish office for a year;
- (3) By apprenticeship in the parish; and
- (4) By being hired for, and serving during a whole year in the parish, p. 145.

The consent of the parish was necessary to obtain a settlement by the two first ways; and no married man could well gain one by the two last. An apprentice was seldom married: and by law an hired married servant gains no settlement, pp. 145-146.

A workman carrying his industry to a new parish, was liable to be removed, unless he rented a tenement to the value of 10*l.* per annum; or could give a security of not less than 30*l.* for the discharge of the parish, p. 146.

By the 8th and 9th William III.<sup>1</sup> Certificates were fallen upon: by these a person was not removable unless he actually became chargeable; and then the parish granting the certificate must pay the expenses of maintenance and removal. Hence it should seem that parishes would not grant certificates in ordinary cases; and a *poor man* might, however inconvenient to him, be compelled to remain all his life in the parish where he had a settlement,<sup>2</sup> pp. 146-148.

<sup>1</sup> Repealed by 35 Geo. III.<sup>1</sup> (1795), which also provided that no poor person should afterwards be removable from the parish which they inhabited to that of their last legal settlement, until they actually became chargeable.

<sup>2</sup> The intricate question of settlements naturally gave rise to a great amount of litigation. Macculloch declares that the expenses involved

The unequal price of labour in places at no great distance from each other is probably owing to this law of settlements. For the scarcity of hands in one parish cannot be relieved by the super-abundance in another, as it is in other countries where there is no difficulty of settlement, p. 148.

To remove a man, who has committed no misdemeanour, from the parish where he chooses to live is a violation of natural liberty and justice. Nevertheless, this grievance has never been the object of popular clamour, though there are few poor people of 40 years of age who have not suffered by it, pp. 148–149.

Anciently, wages were rated by general laws, or by particular orders of the Justices of Peace: these practices, with good reason, are now laid aside. Particular acts of parliament still regulate the wages of some trades, as the tailors. Whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are the masters. When the regulation is in favour of the workman it is *always* just; but sometimes otherwise when in favour of the masters. The law which obliges masters to pay their workmen in money, and not in goods, is just. This is in favour of the workmen, pp. 149–150.

Masters can combine to lower the rate of wages; but were workmen to enter into a contrary combination of the same kind, the law would punish them severely, and if it dealt impartially it would treat the masters in the same manner,<sup>1</sup> p. 150.

in actions and removals were (before 1834, the date of the New Poor Law) seldom less than from 300,000*l.* to 350,000*l.* a year. For a further account of the history and effect of the Poor Laws, see Macculloch, note xxii. p. 596. Fawcett, p. 575. Stephen's *Commentaries*, book iv. 3, 2, also the article 'Poor' in Burn's *Justice*, and the same author's *History of the Poor Law*.

<sup>1</sup> All these laws for the regulation of wages were repealed in 1825 by 5 Geo. IV., cap. 95. Observe the mode in which the complaint of the public and workmen against the masters has been turned by the public and employers against the Trades Unions.

In ancient times, the price of provisions and other goods was rated. The assize of bread is the last remnant of this usage. Except in exclusive corporations, competition will regulate this article better than any assize. The want of an assize occasioned no inconvenience in Scotland. And the establishment of one has produced no advantage, pp. 150–151.

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## CHAPTER XI.

### Of the rent of land.<sup>1</sup>

Rent is naturally the highest which the tenant can afford to pay. Sometimes the liberality, or ignorance of the

<sup>1</sup> Few politico-economic questions have been more vehemently debated in England than those connected with the Rent of Land. Comparatively little attention has been paid to them on the Continent, where the landlord, if not the same person as the cultivator, rather resembles (in most instances) the owner of a fee-farm, than of a fluctuating rent. The popular theory in England is that known as the Ricardian, which will be found fully expounded, not only in Ricardo's own work, but also in Fawcett's, p. 115 seq., and Mill's *Political Economy*, ii. 16. This theory has been vigorously assailed by Carey in America, and by Rogers in England. Carey's views are stated and answered by Mill (*Political Economy*, i. 12, 3), whilst the objections of Rogers will be found in his *Manual*, cap. 12, and his note at the commencement of this chapter in his edition of the *Wealth of Nations*. See also his note at page 169 of the said edition.

The question thus debated between these great authorities has been mixed up with the wider questions, I. Is Political Economy a Deductive or an Inductive Science? II. Did Adam Smith employ the Deductive or the Inductive method in the *Wealth of Nations*? Buckle (*History of Civilisation*), Mill *Essays on some Unsettled Questions in Political Economy*, Cairnes (*Essay on the Logical Method of Political Economy*, *passim*; and *Leading Principles of Political Economy*, p. 467), argue on the Deductive side, Buckle going on to assert that the facts with which the pages of Adam Smith are studded are employed merely as illustrations, and that the *Wealth of Nations* is the necessary complement of the 'Theory of Moral Sentiments.'

Rogers, on the other hand, stoutly maintains that of Induction. See his essay on Adam Smith, his preface to the *Wealth of Nations*, pp. 11, 41, and note at commencement of cap. xi.

landlord makes him accept less; and sometimes the ignorance of the tenant makes him undertake to pay more; or to content himself with less than the ordinary profits of farming stock in the neighbourhood, pp. 151-152.

The rent of land is frequently no more than a reasonable profit for the stock laid out by the landlord upon its improvement. Improvements are often made by the tenant, and, at the revival of a lease, the landlord demands the same augmentation of rent as if they had been all his own. Rent is sometimes demanded for what is incapable of improvement; of this kind are estates bounded by *kelp* shores; and others in the Shetland islands, where part of the rent is paid in sea-fish. The rent of land, is therefore, proportioned to what the farmer can afford to give, p. 153.

The produce of land to be brought to market must be sufficient to replace the stock, together with its profits. If the price be more than this, the surplus will go to the rent of the land; but if it is not more, it can afford no rent; this depends on the demand, p. 154.

High or low wages and profits are the causes of the high or low price of commodities, but high or low rent is the effect of that price,<sup>1</sup> p. 154.

<sup>1</sup> High prices tend to produce high, and low prices low rents. But high and low wages and profits have no necessary connection with high and low prices. General high and low prices merely indicate that gold (or silver) has a low or high purchasing power. It is true that high wages, profits and prices are often concomitants in a particular trade, but this arises from the article having been raised (owing to a sudden demand) from its own class into the class above, e.g., rifles on the outbreak of war might be raised from their own class (3rd) into the second or even (practically) into the first. For obviously if the demand were for a million, the supply of a hundred more rifles a day would for many months be equivalent to no additional supply at all. See Fawcett, p. 345.

*PART I.***Of the produce of Land which always affords Rent.**

As men multiply in proportion to the means of their subsistence, food is always in demand, and can always purchase such a quantity of labour as it can maintain at a certain rate; but land, in general, produces more food than is sufficient to maintain all the labour to bring it to market; and to replace the stock with its profits. Something therefore remains for rent. Such are even the desert moors in Scotland. The rent *increases with the goodness of the pasture*, as the same extent will feed a greater number of cattle, and requires less labour to tend them, p. 155.

The rent of land varies with its fertility, and also with its situation: that near a great town pays more than that in a distant country; owing to the expense of carriage, and the greater rate of profits in the country. Good roads and canals bring the remote parts of the country more nearly to a level with those of the neighbourhood of a town, p. 156.

A corn field produces more food for man than the best pasture. Its cultivation requires more labour, but not in proportion to its produce. The relative values of *bread* and *meat* vary in the different periods of agriculture. In the early period, unimproved lands are all abandoned to cattle; there, meat is cheaper than bread: the former cost little more than the labour of catching; but corn cannot be raised without much labour. In cultivated countries, butcher's meat is dearer than bread. In this state of society, cattle are bred upon cultivated pastures, which raise not only the price of those cattle, but of others bred upon uncultivated moors, which in proportion to their weight are equally good. Thus the rent and profit of unimproved pasture is regulated in some measure by the rent and profit of what is improved,

and this by the rent and profit upon corn. Corn is an annual crop ; butcher's meat the growth of several years : the inferiority of the quantity must be compensated by the price. There are, however, *situations where the rent and profits of grass are superior to what can be made of corn,*<sup>1</sup> owing to the great demand for milk, hay, and butcher's meat, as in the neighbourhood of a great town. Whole districts, may, by their population, be thus circumstanced, as Holland is at present, and ancient Italy was in its prosperity. It may also be the case of a well *enclosed* piece of grass in a country, whose principal produce is corn, pp. 157–160.

But where there is no local advantage, the rent and profit of corn, the common vegetable food of the people, must regulate the rent and profit of pasture. The use of turnips, &c., in feeding cattle, seems to have reduced the price of butcher's meat in proportion to the price of bread, since the beginning of the last century. In 1612 it appears, that the choice pieces of beef were sold at  $4\frac{1}{2}d.$  or 5d. per lb. But in 1764 there was a parliamentary enquiry into the high price of meat, when it was given in evidence that the best pieces of beef were 4d. and  $4\frac{1}{2}d.$  per lb., being one halfpenny dearer than had been the usual price. Now in the twelve first years of the last century, wheat was 1*l.* 18*s.*  $3\frac{1}{4}d.$  the quarter ; and in the twelve years preceding, 1764, it was 2*l.* 1*s.*  $9\frac{1}{2}d.$  the quarter,<sup>2</sup> pp. 160–161.

The greater part of cultivated lands is employed in producing food for men or cattle. The rent and profit of these regulate the rent and profit of other cultivated land. In gardens of hops or fruit, the rent and profits are greater than in a grass or corn field ; but they require more expense and skill to bring them into condition.

<sup>1</sup> Besides this, it costs less to obtain the produce of meadow than of arable land. See Rogers's note and his *Manual of Political Economy*, 165.

<sup>2</sup> In 1820 butcher's meat averaged from 3*s.* 10*d.* to 5*s.* 3*d.* per stone ; and the sack of flour averaged from 47*s.* to 52*s.*

The crop in the hop or fruit garden is more precarious; the price therefore must afford the profit of insurance. In ancient husbandry, the vineyard was reckoned the most profitable, and next to that, a well watered kitchen garden. Democritus thought the latter would not pay the expense of a wall; and Columella, on that account, recommends a hedge of briars. In northern countries, a wall is indispensably necessary for the finer fruits. Their price must be sufficient to pay the expenses of the wall, pp. 161–163.

Writers on agriculture now, as well as the ancients, consider the vineyard as the most profitable part of a farm. The disputes on the subject prove, that the superiority is not very great. In 1731, the planting of new vineyards was prohibited in France, under the *pretence* of a scarcity of corn, and the superabundance of wine. *If the superabundance had been real, a reduction on the profits would have made the prohibition useless.* That vineyards have not occasioned any scarcity of corn, is certain, from the care with which corn is cultivated in the wine provinces, pp. 163–164.

Sometimes the quantity of land fitted for some particular produce is too small to supply the *effectual demand*. In this case, the profits will bear no proportion to those of corn, the excess of which naturally goes to rent. The vine is more affected by the difference of soil than any other fruit tree; from some it derives a flavour which no culture can equal upon any other. This flavour is sometimes peculiar to a few vineyards, and sometimes to a whole district. The quantity of such wine falls short of the effectual demand, and competition for it raises the price above common wines, pp. 165–166.

The produce of the sugar colonies in the West Indies falls short of the effectual demand of Europe. In Cochin China the finest white sugar is sold for about 8*s.* the cwt. *There the greater part of the land is employed*

in producing corn, and rice, the food of the people; consequently the prices of corn, rice, and sugar, are in the natural proportion: but in our sugar colonies, the price of sugar bears no such proportion to that of the produce of a corn field in Europe. The sugar planter, it is said, expects the rum and molasses to defray the expense of cultivation, and that the sugar should be clear profit, pp. 166-167.

In Virginia and Maryland the cultivation of tobacco is preferred to that of corn. The cultivation of tobacco being absurdly prohibited in Europe, a sort of monopoly is given to the countries where it is allowed.<sup>1</sup> Though the cultivation of tobacco does not seem so advantageous as that of sugar, yet from the preference given to the cultivation of tobacco to that of corn, the *effectual demand* of Europe does not seem to be completely supplied. From the restrictions laid upon the planters, and from other methods taken to keep up the price, the superior advantage of its culture over that of corn will not probably be of long continuance, pp. 167-168.

Thus the rent of the cultivated land, the produce of which is human food, regulates the rent of the other cultivated land. The rent of corn land regulates in Europe that of all other cultivated land, p. 168.

If in any country the common vegetable food of the people should be drawn from a plant, of which common land with the same culture would produce a greater quantity than the most fertile does of corn, the real rent of the landlord would be greater, pp. 168-169.

A rice field produces more food than a corn field, so that even in Carolina, where rice is not the common

<sup>1</sup> In France and some other countries on the continent of Europe, tobacco has of late years been cultivated with partial success.

<sup>2</sup> The artificial prosperity of the West Indian Colonies has now fallen under three great blows:—1. The abolition of slavery (1834). 2. Of Colonial protection (1845). 3. The beet-root cultivation which France has so carefully fostered.

vegetable food of the people, and where their fields produce but one crop in a year, it is reckoned more profitable than corn. A good rice field is a bog, *unfit for other vegetable produce useful to men*; therefore the rent of rice lands cannot regulate the rent of other cultivated land, pp. 169–170.

The food produced by a field of potatoes is not *inferior in quantity* to that produced by a field of rice, and much *superior* to what is produced by a field of wheat; for after allowing for the watery nature of potatoes, the produce of potatoes will be *three times that of wheat*. They are cultivated with less expense. Should they ever become the common vegetable food of the people, the same quantity of cultivated land would maintain a greater number of people, and a greater share of the surplus profit would go to the landlord.<sup>1</sup> Land fit for potatoes is fit for other useful vegetables; if they occupied the same proportion of land which corn does, they would regulate the rent of the rest. No food seems more nourishing than potatoes. The difficulty of preserving them discourages their cultivation, pp. 170–171.

## PART II.

### Of the produce of Land which sometimes does, and sometimes does not, afford rent.

Human food is the only produce of land which always affords some rent to the landlord. After food, clothing and lodging are the two great wants of mankind. Land in its rude state can afford the materials of clothing and lodging to a much greater number of people than it can

<sup>1</sup> The high rents almost universal in Ireland under the potatoe *régime* which collapsed in 1846, furnish a practical commentary on this passage. But Adam Smith seems to have forgotten that a nation living on the cheapest food must always be in danger of famine. See Macculloch, note 5, p. 467. Rogers's *Manual*, pp. 71–72.

feed. In its improved state, the case is often reversed, pp. 171–172.

The skins of animals were the original material of clothing; consequently among shepherds and hunters every man provided himself clothing by providing food. Without *foreign* commerce the greater part of the skins would be thrown away. Every nation among whom land property is established has some foreign commerce of this kind, which afford some rent to the landlord. This is the case of the Highland estates. In old times the surplus wool of England found a market in Flanders, pp. 172–173.

The materials of lodging cannot *always* be transported to so great a distance as those of clothing, hence it frequently happens that they are of no use to the landlord. A *stone quarry* near London would afford considerable rent. In many parts of Scotland and Wales it affords none. *Timber* in a populous well cultivated country affords considerable rent; in some parts of North America the landlord would be obliged to anybody who would carry away the greater part of his large trees; and in several parts of Scotland, the bark only can be sent to market for want of roads and water carriage. In such cases the land affords not rent to the landlord; unless by the demand of wealthier nations. Paving the streets of London enables the owners of some barren rocks of Scotland to draw a rent from what afforded none before. The woods of Norway find a market in Great Britain,<sup>1</sup> pp. 173–174.

Countries are populous only in proportion to the number of people whom their produce can feed. When food is provided it is easy to find clothing and lodging. A house may be built in one day by one man. Clothing

<sup>1</sup> Ricardo points out that payments of this sort differ from ordinary agricultural rents, being given for the liberty of removing and selling the timber, not for the liberty of growing it. This is still more manifest in the case of the stone quarry. Ricardo, by Macculloch, p. 35.

requires but little more. But when by cultivation of land, the labour of one family can provide food for two, the labour of half the society becomes sufficient to provide food for the whole. The rest may be employed in providing clothing, lodging, furniture, and equipage. The difference of the food of a rich man and his poor neighbour consists in the quality, not in the quantity. But the difference between their clothing, lodging, and furniture is as great in quantity as it is in quality. The desire of food is limited by the capacity of the stomach ; but the desires of building, dress, equipage, &c. have no limit. The poor, to obtain food, exert themselves to gratify the fancies of the rich. The number of workmen increases with the increasing quantity of food ; and the quantity of materials which they can work up increases in a greater proportion. Hence arises the demand for every sort of material which human invention can employ ;—for fossils, minerals, precious metals, and precious stones, pp. 174—175.

Food is, in this manner, the original source of rent. There are other parts of the produce of land which sometimes afford rent, but not always. Whether a coal-mine can afford rent depends upon its *fertility* and upon its *situation*. Some, well situated, cannot be wrought on account of their barrenness. They afford neither profit nor rent. Others would afford profit to the undertaker, but no rent; these can be wrought only by the landlord. Some sufficiently fertile cannot be wrought for want of roads, or water carriage, pp. 175—176.

The expense of coals must be somewhat less than that of wood. The price of wood, like that of cattle, varies with the state of agriculture. In the rude beginnings, wood is a mere incumbrance. As agriculture advances, woods are partly cleared by tillage; and partly destroyed by cattle. The scarcity of wood affords to the landlord a rent, in some cases, equal to what

can be derived from corn or pasture. Upon the sea-coast, where coals are easily obtained, it is sometimes cheaper to bring timber from a foreign country than to raise it. Wherever the expense of a coal fire is nearly equal to that of a wood one there the price of coals is as high as it can be. Coals in the coal countries are much below this, or they would not bear the expense of carriage. The most fertile coal-mine regulates the price of coals at all other mines in the neighbourhood, pp. 176-177.<sup>1</sup>

Rent has generally a smaller share in the price of coals than in that of most other parts of the rude produce of land. The rent of an estate above ground is generally a third of its produce; in coal-mines, a fifth is great rent. Thirty years purchase is a moderate price of a landed estate; but ten years purchase is regarded as good price of a coal-mine. The value of a coal-mine depends as much on its situation as upon its fertility. That of a metallic mine depends more upon its fertility, and less upon its situation; metals separated from the ore can bear the expense of long carriage. Their market extends over the whole world, p. 178.

The productions of distant coal-mines cannot be brought in competition with one another,<sup>2</sup> but the productions of the most distant metallic mines may; consequently, the price of metals at the most fertile mines in the world affect their price at every other. After the discovery of the mines of Peru, the silver mines of Europe would not pay the expense of working. This was the case of the mines of Peru after the discovery

<sup>1</sup> This statement is condemned by the whole school of Ricardo, according to whom the price of the coal extracted from the least fertile mine which it is necessary to work, in order to supply the demand, will determine the price of the coal extracted from all the other mines. Rogers agrees with them for once (subject to the proviso that the 'effectual demand is full'). See his note on this passage.

<sup>2</sup> Occasional exceptions occur, e.g., the ships that carry wheat from California to England are often ballasted with coal for the return voyage.

of those of Potosi. Hence, the greater part of mines can afford little *rent* to the landlord, p. 179.

A sixth part of the produce is the average rent of the tin mines of Cornwall and of the lead mines of Scotland. In the silver mines of Peru, the proprietor exacts only, that the undertaker shall grind the ore at his mill, paying the price of grinding. Till 1736, the tax of the King of Spain amounted to one fifth, which might be considered as the rent; many mines could not afford this tax. The tax upon Cornish tin is 1-20th; this would be rent if tin was duty free. When 1-20th is added to 1-6th, it will be found that the rent of the tin mines to that of silver was as thirteen to twelve. In 1736, the tax on silver was reduced to 1-10th; even this encourages smuggling, and the tax is ill paid, while that of tin being 1-20th only, is well paid. Rent, it seems, is greater in the coarse than in the precious metal, p. 180.

The profit of the undertaker of the silver mines in Peru is very precarious. Mining is a lottery in which the prizes do not compensate the blanks. By law every encouragement is given to the discovery and working of new mines. To the supposed interest of public revenue, the sacred rights of private property are sacrificed, p. 181.

Similar encouragement is given to the discovery and working of gold mines; few persons are enriched by the business. One twentieth is the whole rent paid by the gold mines of Chili and Peru. Gold is more easily smuggled than silver, both on account of its value, and on account of the way in which nature produces it,<sup>1</sup> p. 181.

The lowest price at which the *precious metals* can

<sup>1</sup> Since gold is almost always found native and in shallow mines, we may reasonably expect that the supply will soon fall off whilst commerce continues to expand. In other words, there will be a long period of falling prices. See Fawcett, p. 485.

be sold must at least be sufficient to replace the stock with the ordinary profits. Their highest price is determined by the scarcity or plenty of those metals themselves, and not by that of any other commodity; as the price of coals is by that of wood, p. 182.

The demand for those metals arises *partly from their utility, and partly from their beauty.*<sup>1</sup> Excepting iron, they are *more useful* than any other metal. They are the most *cleanly* of all metals. They are fit for ornaments of dress and furniture. Their merit is enhanced by their scarcity, especially in the eyes of the rich, who always love to display their wealth. These qualities of *utility, beauty, and scarcity*, are the original foundation of the high price of metals. This value was antecedent to their being employed as coin, and fitted them for that employment; which employment has contributed to keep up and *increase their value,*<sup>2</sup> pp. 182-183.

The demand for precious stones arises altogether from their beauty, which is greatly enhanced by their scarcity. *Wages and profit* make up almost the whole of their high price; only the *most fertile* mines afford rent. Since the price of precious metals and stones is regulated by their price at the *most fertile* mine, the rent of a mine is in proportion to its *relative fertility*, or to its superiority over other mines. The discovery of new mines might make those of Potosi not worth working. The most abundant mines of precious metals could add little wealth to the world; their value, being derived from their scarcity, is degraded by abundance. It is otherwise in estates above ground. The value of their produce and rent is in proportion to their *absolute fertility*. The value of barren land is generally increased by being in the neighbourhood of the most fertile, as

<sup>1</sup> We here find traces of the confusion noticed under note 1, page 11.

<sup>2</sup> For example, platinum is less abundant than gold, but being little required for purposes of commerce, its value is inferior to that of gold.

the great number of people maintained by the fertile lands affords a market to the produce of the barren, pp. 183–184.

Whatever increases the fertility of land in producing food increases not only its own value, but that of other lands, by creating a new demand for their produce. That abundance of food in consequence of the improvement of land is the great cause of the demand of precious metals, &c. Food constitutes the principal part of the riches of the world, and gives a value to many other sorts of riches, pp. 241 ; 184–185.

### PART III.

Of the variations in the proportion between the values of that sort of produce which always affords Rent, and of that which sometimes does, and sometimes does not, afford Rent.

*THE increasing abundance of food*, in consequence of cultivation, increases the demand for the produce of land which is not food. It might therefore be expected, that there should be only one variation in the comparative values of those two different sorts of produce. The value of that sort which sometimes does, and sometimes does not, afford rent, should rise in proportion to that which always affords rent ; and this has generally been the case, pp. 185–186.

The value of a *free-stone quarry* increases with the improvement and population of the neighbourhood. This is not necessarily the case with a *silver mine*. The market for the one can extend but a few miles ; that of the other extends over the whole known world. The world in general must be advancing in improvement and population to raise the value of silver ; and even in that case a discovery of new mines may make the supply greater than the demand, and consequently the value of the metal must fall, p. 186.

The great market for silver is the commercial and civilized world. (1) If the demand should increase faster than the supply, the value of silver must rise in proportion to that of corn. (2) But if the supply of silver be greater than the demand, the money price of corn must become dearer. (3) When the supply and demand increase in the same proportion, the money price of corn must continue nearly the same. These three exhaust all combinations of events which can happen in the progress of improvements; and during the four centuries preceding the present, each has taken place in the European market, pp. 186-187.

**Digression concerning the variations in the value of silver,  
during the course of the four last centuries.**

**FIRST PERIOD.**

ABOUT the year 1350, the average price of a quarter of wheat was four ounces of silver, equal to about twenty shillings of our money. By a statute of Edward III. it appears, that the moderate price of a bushel of wheat was half an ounce of silver. In 1309,<sup>1</sup> it appears from an account given of a feast at Canterbury, the wheat was twenty-one shillings and sixpence per quarter. In 1262, a statute was revived, called the assize of bread and ale, from which it would seem that wheat was about the same price of twenty shillings per quarter, pp. 187-189.

From the middle of the 14th century to the beginning of the 16th, the price of wheat gradually sunk to about 2 oz. of silver or 10s. of our money; for though the nominal price continued during this period nearly the same yet the quantity of silver was continually diminishing, pp. 189-190.

<sup>1</sup> Rogers points out that 1309 was a very dear year. See his note on this passage, and his *History of Agriculture and Prices*, vol. i.

It was enacted in 1436 that wheat *might be exported* when the price was as low as 6s. 8d., and in 1463 it was enacted that it *should not be imported* if the price was not above 6s. 8d. the quarter, equal to about 13s. 4d. of our money. By the 5th of Elizabeth the exportation of wheat was allowed only when wheat was higher than 10s. per quarter. This, therefore, was probably the moderate price of wheat in the beginning of Elizabeth's reign. In France also, and probably in the greater part of Europe, the average price of grain was *less* in the beginning of the 16th century than in the two preceding centuries, pp. 190-191.

The rise of silver, in proportion to that of corn, was owing either to the increasing demand of the metal, or to the diminution of the supply, p. 191.

Some writers have supposed, that the value of silver was continually diminishing from the Conquest until the discovery of the mines of America. In their observations upon the prices of corn, three circumstances seem to have misled them: (1) In ancient times rent was paid in *kind*, though at the option of the landlord to receive it in *kind* or *money*. The payment in *kind* exchanged for *money* was called the *conversion price*, which the safety of the tenant required to be *much below the market price*. (2) They have been misled by the *slovenly* manner in which the ancient statutes of assize had been composed or transcribed; and (3) By the very low price at which wheat was *occasionally* sold in ancient times, supposing that if its lowest price was *much lower* than in later times, its ordinary price must likewise have been lower: though it appears that in 1270 the quarter of wheat was sold for 19l. 4s. of our money.<sup>1</sup> No price in the 15th and beginning of the

<sup>1</sup> The more recent investigations of Rogers show that the average price of a quarter of wheat in 1270 was 6s. 4½d. No confidence ought to be placed in any of the prices of wheat given by Adam Smith before the commencement of the Eton Table (in 1595), but it has been thought

16th century can be found approaching to this, pp. 192–195.

Fleetwood collected the prices of wheat from 1202 to 1597, and reduced them to the money of the present times. He was able to collect the prices of eighty years only.<sup>1</sup> From these it appears that the average price of each 12 years, from the beginning of the 13th till the middle of the 16th century *grows lower and lower*; and that towards the end of the 16th century *it begins to rise again*, pp. 195–196.

Writers have not inferred the great value of silver

proper to give a synopsis of the whole. Rogers has appended a most valuable series to the 1st book of his edition of the *Wealth of Nations*, and estimates the average price of a quarter of wheat between 1261–1480, at 5s. 6½d.

<sup>1</sup> The average prices of wheat inserted by Dr. Smith at the end of the chapter will be introduced here, pp. 265–267.

*The Average Price of the quarter of Wheat, in money of the present times for the years:—*

						£ s. d.
1202	1223	1243	1246	1257	1270	2 19 1½
1205	1237	1244	1247	1258	1286	1 18 8
1287	1289	1294	1309	1316	1336	1 5 9½
1288	1290	1302	1314	1317	1338	1 1 3½
1339	1359	1363	1379	1390	1407	1 1 0
1349	1361	1369	1387	1401	1416	1 1 0
1423	1434	1439	1444	1447	1449	1 1 0
1425	1435	1440	1445	1448	1451	1 1 3½
1453	1457	1460	1464	1491	1495	0 14 1
1455	1459	1463	1486	1494	1497	0 10 0
1498	1521	1553	1555	1557	1559	0 10 0
1504	1551	1554	1556	1558	1560	0 10 0
1561	1574	1594	1596	1598	1600	2 7 5½
1562	1587	1595	1597	1599	1601	2 19 1½

*Average Prices of the quarter of nine bushels of the best Wheat at Windsor market from 1595 to 1764:—*

	£ s. d.
From 26 years from 1595 to 1620 . . . . .	2 1 6 9-13
For 16 years from 1621 to 1686 . . . . .	2 10 0
For 60 years from 1637 to 1700 (the account of the years 1642–3–4–5 being omitted) . . . . .	2 11 0½
For 64 years from 1701 to 1764 . . . . .	2 0 6 19-32
For 10 years from 1731 to 1740 . . . . .	1 17 3 1-5
For 10 years from 1741 to 1750 . . . . .	1 13 9 4-5

so much from the cheapness of corn, as of cattle, poultry, game, &c. This cheapness was not the effect of the high value of silver, but of the low value of those commodities. Silver is cheaper in Spanish America than in Europe; yet but a few years since,<sup>1</sup> choice oxen were sold there for 21*d.* each, and good horses for about 16*s.* sterling, pp. 196–197.

Labour, it must be remembered, is the real measure of the value of silver, and of all other commodities. In countries thinly inhabited, the supply of cattle is greater than the demand, p. 197.

In different states of society such commodities will be equivalent to *very different* quantities of labour; but corn, the produce of human industry, is always suited to the consumption. Equal quantities of corn will require equal labour to produce them.<sup>2</sup> Corn, therefore, will more nearly represent equal quantities of labour than cattle; and consequently will be a better measure of the value of silver. Further, since corn is the chief sustenance of the labourer, it must be a better measure of the value of labour, consequently of silver, than cattle or butcher's meat, pp. 197–198.

Writers seem also to have been misled by the popular, but groundless notion, that silver increases with the increase of wealth, and that its value diminishes as its quantity increases. The quantity of precious metals may increase:

- (1) From the increased abundance of the mines.
- (2) From the increased wealth of the people, owing to the increased produce of their annual labour.

The first cause is certainly connected with the diminution of their value. But not so in the other case, since a greater quantity of *coin* becomes necessary to carry on trade; and more plate is generally required through mere

<sup>1</sup> i.e., about the middle of the 18th century.

<sup>2</sup> This is a strange error; for as agriculture improves, less labour will be required to produce an equal quantity of corn.

ostentation. The price of gold and silver is higher in a rich than in a poor country, and like every thing else it will seek the best market; that is, where it is best paid for, which will always be in proportion to the sustenance of the labourer. China is richer than Europe, and sustenance much cheaper; but the difference of the *money price of labour* is still greater, because the *real* recompence of labour is higher in Europe than in China. The *money price* of labour is lower in Scotland than in England, for the same reason; hence, the emigrations from Scotland, pp. 199–201.

Gold and silver are of little value in poor countries. Among savages they are of scarce any value. In great towns, corn is dearer than in remote parts of the country,<sup>1</sup> not because silver is cheaper, but because corn is dearer, from the expense of carriage: this happens to some rich commercial countries, as Holland and Genoa;—diminish the opulence of these countries,—diminish their power of supplying themselves from distant countries, while the number of inhabitants continues the same, and corn will be still dear, though silver should sink in its value. The want of necessaries makes people part with their superfluities.<sup>2</sup> The increase of the quantities of the precious metals, from the middle of the 14th to the middle of the 16th century, arose from the increase of wealth and improvement, and had no tendency to diminish their value in Europe, pp. 201–202.

#### SECOND PERIOD.

IT is certain that from 1570 to 1640, silver sunk in its real value, and corn rose in its nominal price, being sold for six and eight ounces of silver the quarter, instead of two ounces. The *sole cause* of this diminution of value seems to have been the discovery of the mines of

<sup>1</sup> Improved communications have put an end to this difference.

<sup>2</sup> Ricardo criticises the whole of this paragraph with acuteness and severity. See Ricardo's *Political Economy*, cap. 28.

America, the effect of which was not perceived till after 1570, though the mines of Potosi had been discovered twenty years before, p. 203.

### THIRD PERIOD.

THE value of silver seems never to have sunk lower in proportion to that of corn than it was about the year 1636. It has been somewhat higher in the present century, and perhaps for some time before the end of the last. From 1637 to 1700, the average price of nine bushels of corn was  $2l. 11s. 0\frac{1}{2}d.$  only one shilling dearer than during the sixteen years before. This small rise may be easily accounted for, (without supposing any reduction in the value of silver) either (1) By civil war, or (2) By the bounty granted in 1688, upon the exportation of corn. A third event must have increased the nominal price of corn, viz. the debasement of the silver coin. This evil had begun in the reign of Charles II. and had gone on increasing till 1695, at which time, *the current silver coin was twenty-five per cent. below its standard value.*<sup>1</sup> At present the silver coin is very much defaced, yet its value is kept up by the gold coin; <sup>2</sup> but in 1695, a guinea exchanged for thirty shillings of the worn silver,<sup>3</sup> pp. 204—206.

In the sixty-four years of the present century, the average price of nine bushels of wheat was two pounds and sixpence, about twenty-five per cent. cheaper than it had been during the last sixty-four years of the last century. Hence, *the value of silver seems to have*

<sup>1</sup> See Macaulay (*History of England*) on the great recoinage under William III.

<sup>2</sup> In William III.'s time the silver currency was much the more important. In Adam Smith's time the gold currency occupied that position. Hence, according to Ricardo, the difference of the effects produced by the debasement of the silver coin in the two cases. See Ricardo by Macculloch, p. 224.

<sup>3</sup> This was true in 1812.

*risen in proportion to that of corn during the present century.* In 1688, the average price of wheat to the grower was estimated, by Mr. Gregory King, to be three shillings and sixpence the bushel. The growers' price is the same with what is called the contract price, made by a farmer with a dealer, for a certain number of years, which, as it saves trouble and expense, must be somewhat lower than the market price. In this same year, the bounty on exportation was granted, the avowed object of which was, the encouragement of tillage, though in reality it was an expedient, of the country gentlemen in parliament, to raise corn to the high price which it had frequently been sold at in the times of Charles I. and II. This bounty was to take place till wheat was so high as forty-eight shillings the quarter, that is, twenty shillings dearer than what was then accounted the average growers' price, pp. 207–208.

In years of great scarcity, the bounty has generally been suspended; it must however have hindered the plenty of one year from compensating the scarcity of another. Perhaps without the bounty, the state of tillage would not have been the same. This rise in the value of silver, to that of corn, has taken place in France during the same period. But in France, the exportation of grain was prohibited till 1764, pp. 208–209.

This variation in the average money price of corn is, perhaps, the effect of some gradual rise in the real value of silver in the European market. The high price of corn during these ten or twelve years past has occasioned a suspicion, that the real value of silver continues to fall. It ought rather to be imputed to unfavourable seasons, and the disorders of Poland which have increased the scarcity in those countries, which used to be supplied from that market. The low price of corn from 1741 to 1750 may be set in opposition to the high price during these last ten

years. The operation of the bounty, which amounted in this period to 1,514,962*l.* 17*s.* 4*d.*, must have hindered the price of corn from falling so low as it naturally would have done, pp. 209–210.

The money price of labour in Great Britain has risen during the course of the present century; but this is the effect of the increasing demand for labour, and not of any diminution of the value of silver, p. 211.

For some time after the discovery of America, silver would continue to sell at its former price, and the profits would be very great. But it would soon be found that the annual importation could not be disposed of at this rate, consequently its price would *gradually sink to its NATURAL price*. The profits of the mines of Peru are now as low as they well can be, consistently with carrying on the works. The tax was originally  $\frac{1}{2}$ , then 1-3rd.; afterwards it fell to 1-5th, and at the last to 1-10th: it was reduced to 1-5th, forty-one years before 1545, the date of the discovery of the mines of Potosi. In ninety years, or before 1636, these mines had produced their full effect, in reducing the value of silver in Europe as low as it could fall. This price might have fallen lower, and it might have been necessary to reduce the tax to 1-20th, or give up working the greater part of the mines. But since the discovery of America the market for silver has been growing more extensive, pp. 211–212.

(1.) **The market of Europe has become more extensive.** The whole of Europe, except Spain and Portugal, has advanced considerably in agriculture and manufactures, the increasing produce of which must have required an increase in the quantity of silver coin; and the increasing number of wealthy individuals must have required the like increase in the quantity of their plate, p. 213.

(2.) **America is itself a new market for the produce of its own silver mines;** and as its advances in agriculture, industry, and population, are extremely rapid, its demand for silver must also increase rapidly.

The United States of North America, the English, Spanish, and Portuguese colonies, are altogether new markets. Even Mexico and Peru, though not new markets, are much more extensive than ever they were before, p. 213.

(3.) The East Indies is another, and an increasing, market for the produce of the silver mines of America. During the 16th century, the Portuguese were the only European nation who traded to the East Indies. In the last century, the trade was principally divided between that nation and the Dutch. The English and French carried on some trade with India in the last century, but it has been greatly augmented in the course of the present; and now the Swedes, Danes, and even Muscovites, trade thither. In the East Indies the value of the precious metals was, and still is, higher than in Europe. The abundance of food is much greater in India than in Europe; and India is accordingly much more populous. Their superabundance of food enables them to give a greater quantity of it for the precious metals and precious stones. The mines which supplied the Indian market with the *former* have been less abundant, and those which supplied it with the *latter*, more so, than the mines which supplied the European. The precious metals, therefore, would exchange for a greater quantity of the precious stones, and a much greater quantity of food than in Europe. Both the REAL and the MONEY price of labour are lower in India than in Europe. But the money price of manufactures will be in proportion to the *money price of labour*;<sup>1</sup> therefore manufactures will be lower in India than in Europe. The extent of the inland navigation in India tends farther to reduce the price of their manufactures. Hence it appears that the precious metals are ex-

<sup>1</sup> Adam Smith here confuses 'money price of labour,' i.e., rate of wages, with 'cost of labour.'

*tremely advantageous, to carry from Europe to India.<sup>1</sup>* Silver is more advantageous than gold ; since the proportion between them in India is only as ten or twelve to one ; whereas in Europe it is as fourteen or fifteen to one, pp. 215–217.

The silver brought from the mines must not only be sufficient to support the increase of coin and of plate ; but to repair the waste and consumption which takes place in all countries where that metal is used. The consumption in coin by wearing, and in plate by wearing and cleaning, is very sensible. In some manufactures, it is also considerable : in those of Birmingham, the quantity of gold and silver used in plating and gilding is said to amount to 50,000*l.* annually. A great deal must be lost in transporting those metals from one place to another ; and in arbitrary governments much is lost by concealing it in the earth, p. 218.

The quantity of gold and silver imported into Spain and Portugal is about six millions sterling a year ; but this is *not* equal to the whole annual produce of the mines of America ; some part is sent to Manilla, and some part is employed in a contraband trade. The *greater part* of their produce is annually imported into Cadiz and Lisbon ; the consumption of Birmingham alone is equal to 1-120th part of this annual importation. Perhaps, therefore, the whole annual consumption in all the countries of the world may be nearly equal to the whole annual produce. *The remainder may be no more, or even less than sufficient to supply the increasing demand of thriving countries ; which may have occasioned a small rise in the price of these metals in the European market,* pp. 218–220.

The price of all metals varies less from year to year than any other part of the rude produce of land ; this is owing to their durableness. Corn is soon con-

<sup>1</sup> For an account of the export of silver to the East and its causes, see Fawcett, Book iii. cap. 15, 16.

sumed, but iron may last two or three hundred years, and silver or gold as many thousands. Different masses of corn will be in proportion to the produce of different years ; but the *proportion* between the masses of gold in two different years will not be much affected by any difference in the produce of the gold mines, pp. 220-221.

### Variations in the proportions between the respective values of Gold and Silver.

BEFORE the discovery of the mines of America, the value of gold to silver was about one to ten or twelve. About the middle of the last century, the proportions were one to fourteen, or fifteen. Gold rose in its **NOMINAL** value,<sup>1</sup> and both metals sank in their **REAL** value, p. 219. The proportion between the quantities of gold and silver annually imported into Europe is as one to twenty-two nearly. The exportation of silver to the East Indies reduces the quantities which remain, *in the proportion of one to fourteen or fifteen, the proportion of their values*. Mr. Meggens supposes that the proportion between their values *must be the same as between their quantities*. This is not necessarily the case with respect to other commodities. The whole quantity of a cheap commodity brought to market is not only greater, but of greater value than the whole quantity of a dear one. This is the case with *bread*, compared with *butcher's meat* ; or *butcher's meat*, compared with *poultry*. In comparing the precious metals, silver is a cheap, and gold is a dear, commodity ; therefore the *whole quantity* of silver in the market should be of **greater value** than the whole quantity of gold. A person possessing a little of both will find the value of his silver plate exceed that of his gold ; and in most countries, except Great Britain, the **value of the silver coin exceeds that of the gold**, pp. 222-223.

<sup>1</sup> The recent investigations of Dr. Soetbeer have thrown much fresh light on this subject. See Fawcett, p. 503.

In one sense, perhaps, gold is the cheaper metal, as it seems nearer than silver to its lowest price for which it can be brought to market. The tax of the former is only 1-20th, and that of the latter is 1-10th ; in these taxes consist the rent. The profits on gold mines are less than those upon silver mines. Gold, therefore, affording less profit, and less rent, is probably nearer to its *lowest price* than silver. The price of diamonds, and other precious stones, may be still nearer to the *lowest price*, pp. 223-224.

The working of silver mines becomes gradually more expensive, on account of the depths at which the works are carried on, the accumulated expense of drawing out the water, and of supplying them with air. These causes must in time,

- (1.) Increase the price of the metal ; or
- (2.) The tax upon silver must be diminished ; or
- (3.) The increased expense must be compensated, partly by the one, and partly by the other, of these expedients.

Such reductions of the tax retard the rise of the value of silver, since many mines may be wrought, which could not be wrought before, and consequently the market will be better supplied. Notwithstanding this reduction, the value of silver seems to have risen a little in the course of the present century ; though some persons think the contrary. There must, however, be a period when the annual consumption of those metals will be equal to the annual importation. If then the importation gradually diminish, the consumption may exceed the importation, and their value rises, pp. 225-226.

Grounds of the suspicion that the value of silver still continues to decrease.

- (1.) The notion, that as the quantity of the precious metals increases with the increase of wealth, so their

*value diminishes, may dispose many people to suppose their value continues to fall in the European market.* And (2.) *The increasing price of many parts of the rude produce of land confirms them in this opinion:* but gold and silver, like other luxuries, *resort to the rich country*, not because they are *cheaper* there than in poor countries, but *because they are dearer*. The same may be said of cattle, game, poultry, &c. They naturally grow dearer as the society advances in wealth and improvement. It is not their *nominal* price only, but their *real* price which rises in the progress of improvement, pp. 226–227.

Different effects of the progress of improvement, upon three different sorts of rude produce.<sup>1</sup>

*FIRST SORT.*

THE first sort of rude produce of which the price rises in the progress of improvement is that which it is scarcely in the power of human industry to multiply at all. It consists in things which nature produces in certain quantities; which are perishable; and which it is impossible to accumulate for many seasons. Such are rare birds, and fishes; most sorts of game, wild fowl, and many other things. An increase of wealth and luxury may, by increasing the demand, raise the price of these things to any extent, but no human power can increase the supply. Hence the price paid by the Romans in their greatest grandeur for rare birds and fishes. This was not the effect of the cheapness of silver, but of the dearness of the rarities, pp. 228–230.

<sup>1</sup> Care must be taken not to confuse the three sorts of rude produce here discussed by Adam Smith with the three classes of commodities treated of by Fawcett, Book iii. cap. 2.

*SECOND SORT.*

THE second sort of rude produce, of which the price rises in the progress of improvement, is that which **human industry can multiply in proportion to the demand**. It consists in those useful animals and plants which, in uncultivated countries, nature produces in abundance. In the progress of improvement the quantity diminishes, while the demand for them increases. The real value gradually rises, till it gets so high as to render them as profitable a produce as any thing else raised by **human industry**. It cannot go higher. The price of butchers' meat, consequently of cattle, must rise till it is at this height, which happened in the neighbourhood of London, about the beginning of the last century, pp. 230–231.

Land cannot be completely cultivated before cattle arrive at this price. In farms too distant from any town to carry manure from it, the quantity of *well* cultivated land must be in proportion to the quantity of manure, which will be in proportion to the stock of cattle maintained on it. Unless, therefore, the price of cattle be sufficient to pay rent, and profit, of well-cultivated land, the farmer cannot afford to pasture them upon it, much less can he afford to feed them in the stable. In such circumstances he can feed no more cattle than what are necessary for tillage; but these will not afford manure sufficient for all the land they are capable of cultivating; consequently a great part of the land must lie almost waste. Such was the state of Scotland till the Union, in consequence of the low price of their cattle; and in some parts of that country it now continues to be so:<sup>1</sup> owing,

<sup>1</sup> Scotch agriculture has much improved since Adam Smith's time, and is now perhaps superior to that of England. It appears to have been much favoured by two circumstances:—

(1.) By the practice of granting leases for 19 years, which was

(1.) To the poverty of the tenants, and their not having had time to acquire stock :

(2.) To their having not had time to put their lands into condition fit to maintain a greater stock.

Hence, the increase of stock and the improvement of land must go hand in hand, pp. 231–233.

In all new colonies, the great quantities of waste land applied to feeding cattle soon renders them abundant and cheap. But it must (for want of manure) be very long before cattle can be fed on the produce of cultivated land, pp. 233–234.

Of all the parts of this second sort of rude produce, cattle are the first which bring such a price as to render it profitable to feed them on cultivated land; for till they bring it, land cannot be perfectly cultivated. Venison, perhaps, is the last, otherwise feeding of deer would become an article of farming. Between that period in the progress of improvement which brings to its height the price of cattle, and that which brings to it the price of venison, there is a long interval, in the course of which many other sorts of rude produce will arrive at their highest price: as poultry, which at present are kept on the offals of the barn, and are consequently often as cheap as butcher's meat. As luxury increases, the price of poultry rises above that of butcher's meat, till it becomes profitable to cultivate land for the sake of feeding them,<sup>1</sup> pp. 235–236.

The hog, like poultry, is kept as a save-all. The rise in the price of hogs and poultry has been imputed, and perhaps with justice, to the diminution of the

beginning to come in when the *Wealth of Nations* was written (see McCulloch's edition of Adam Smith. Note 18, p. 572.)

(2.) By the fact that, until 1832, no tenant farmer had a vote. Hence, the landlord had no motive, either to inquire into the tenant's politics, but merely into his intelligence and skill, or to abstain from granting a lease, to increase the tenant's dependence.

<sup>1</sup> Both poultry and dairy farming have fallen off in England under the large-farm system. See Fawcett, p. 72.

number of cottages ; an event, which has been the forerunner of improvement and better cultivation, pp. 236—237.

The business of the dairy was also *originally* carried on as a save-all. The cattle produce more milk than can be consumed by their young, and by the farmer's family. This is the most perishable of all the productions of land ; part of it is made into butter, which may be stored for a year ; and part into cheese, which may be kept for several years. Part of these the farmer reserves for his own family ; the rest is sent to market. If the market price be very low, the business of the dairy is performed in a slovenly manner. The same causes which raise the price of butcher's meat raise that of the produce of the dairy ; this increase of price will pay for more labour and more cleanliness. At last, the price gets so high, that it becomes worth while to employ the best cultivated lands for the purposes of the dairy. To this height it has got, in most parts of England, and in some few parts of Scotland, pp. 237—239.

Lands cannot be completely improved, till the price of every produce raised upon them has got so high as to pay for the expense of complete cultivation : that is,

- (1.) To pay the rent of good corn land :
- (2.) To replace the stock employed, with the ordinary profits.

The rise in the prices of each produce must be previous to the improvement of the land destined for raising them. Gain is the end of improvement. If, therefore, the improvement of a country be of public advantage, the rise in the price of the different sorts of rude produce must be a national benefit, instead of a public calamity. This rise, too, in the money price of those different sorts of rude produce, has not been the effect of any degradation in the value of silver, but of a rise in their real price, pp. 239—240.

## THIRD SORT.

THE third and last sort of rude produce, of which the price naturally rises in the progress of improvement, is that in which the efficacy of human industry in augmenting the quantity is either limited or uncertain. There are some sorts of rude produce which nature has rendered a kind of appendages to other sorts, as wool and raw hides. The quantity of these is limited by the number of great and small cattle; these again are determined by the state and nature of agriculture. The same causes which raise the price of butcher's meat would also raise the price of wool and hides, if in the rude beginnings of improvement the market for the latter was confined within as narrow bounds as the former. In *most cases*, the market for butcher's meat is confined to the country which produces it.<sup>1</sup> This is not the case with wool and raw hides. They can easily be transported to a country which may have a demand for them. In countries ill cultivated, the price of the wool and the hide bears a *great proportion* to that of the whole beast. In Spanish America, horned cattle are almost constantly killed for the sake of the hide and the tallow. Therefore, though in the progress of population the price of the whole beast rises, yet the price of the carcase is likely to be much more affected by this rise than that of the wool or the hide; these however ought to rise somewhat; they certainly ought not to fall, pp. 240-242.

English wool has, however, fallen very considerably since the time of Edward III. The money price then was to the money price now as ten to seven: the superiority of the real price was still greater, p. 242.

<sup>1</sup> This is much less true than it was in Adam Smith's time. Live cattle are transported from many countries to Great Britain, and preserved provisions from many more.

This degradation in the value of wool has been occasioned :

(1.) By the prohibition of exporting wool from England.

(2.) By the permission of importing it from Spain duty free.

(3.) By the prohibition of exporting it from Ireland to any other country, but England, p. 243.

From the only account we have of the value of hides in ancient times, it appears, that the *real* value of ox hides in 1420 were somewhat higher than they are now. The price of raw hides is a good deal lower at present than it was a few years ago. The average price of the present century being taken, the real price has probably been somewhat higher than it was in those ancient times, pp. 243-244.

Whatever regulations tend to sink the price of wool, or of raw hides, below what it naturally would be, must, in an improved and cultivated country, have some tendency to raise the price of butcher's meat.<sup>1</sup> The price of cattle must be sufficient to pay the rent; therefore, whatever is not paid by the wool and the hides, must be paid by the carcase.<sup>2</sup> In unimproved and uncultivated countries, it would be quite otherwise. The fall in the price of the wool and the hide must reduce the rent and the profit; under such circumstances, the perpetual prohibition of wool would have been the most destructive regulation that could have been thought of, pp. 245-246.

<sup>1</sup> The question of conjoint products is often very complicated. (Some instances as those of knitted stockings and the spinners have been already given by Adam Smith.) Mutton was formerly at a nominal price in Australia—the owners of sheep-runs making much by wool and something by tallow—until the great increase of population produced by the gold discoveries brought about a considerable change in the relative values of the three. See Mill's *Political Economy*, iii. 16, 1.

<sup>2</sup> Adam Smith might have made this proposition more general; for, without constantly keeping in mind the tendency of joint products to compensation, it is impossible to interpret prices correctly.

**As the efficacy of human industry, in increasing the quantity either of wool or hides, is limited so far as it depends upon the produce of the country where it is exerted, so it is uncertain, so far as it depends upon the produce of other countries, and also upon what they do not manufacture themselves,** pp. 246-247.

The quantity of fish, another sort of rude produce brought to market, is likewise limited and uncertain. It is limited by the situation of the country; its distance from the sea; and by the barrenness or fertility of those seas, as to this sort of rude produce. Besides, as population increases, the demand will become greater; but it will generally be impossible to supply an extended market, without employing a quantity of labour, greater than in proportion to what had been requisite for supplying the confined one.<sup>1</sup> The real price of this commodity rises in the progress of improvement. Its uncertainty depends also on the local situation of the country, pp. 247-248.

In increasing the quantity of minerals and metals, which are drawn from the bowels of the earth, the efficacy of human industry seems *not* to be limited, but to be *altogether uncertain*. The quantity of precious metals in any particular country, depends

- (1.) Upon the power of purchasing; and
- (2.) Upon the fertility of the mines, which at the same time supply the commercial world with those metals.

So far as their quantity depends on the *former*, their real price is likely to rise with the wealth and improvement of the country, and to fall with its poverty and oppression. So far as their quantity depends on the *latter*, their real price will sink in proportion to the fertility, or rise in proportion to the barrenness, of those mines. The state of the mines have no

<sup>1</sup> In other words, fish must be reckoned among the commodities the supply of which cannot be increased without a greater proportional expenditure of labour and capital. See Fawcett, p. 319.

connection with the industry of a country. No skill or industry can insure the discovery of new mines. In the search there are no certain limits either to the success or to the disappointment of human industry.<sup>1</sup> It is of no importance to the **REAL WEALTH** of the world, whether new and fertile mines be discovered or not: the only difference will be in the **NOMINAL VALUE**; the **REAL VALUE** of the annual produce of the land and labour will be the same,<sup>2</sup> pp. 248–250.

**Conclusion of the digression concerning the variations  
in the value of Silver.**

WRITERS have considered the low money price of corn, or, in other words, the high value of gold and silver in a country, as a proof of its poverty and barbarism. It is, however, *only a proof of the barrenness of the mines which happened at that time to supply the world.* A poor country cannot afford to pay dearer for gold and silver than a rich one. In China, the value of precious metals is higher than in Europe; yet China is the richer country. The increase of gold and silver in Europe, and the increase of its manufactures and agriculture, happened about the same time; the former from the accidental discovery of new mines, the latter from the fall of the feudal system. Poland, where the feudal system still continues,<sup>3</sup> is as poor as it was before

<sup>1</sup> The profits of mining enterprise will usually be very low, owing to the gambling propensities of human nature.

<sup>2</sup> Adam Smith seems to under-rate the importance of the discovery of new and fertile mines of the precious metals. Not only do they frequently afford a strong stimulus to colonisation (the would-be gold-miner risking little but loss of time), but they also tend to prevent the fall in prices and consequent derangement of trade which must otherwise have followed any great extension of commercial transactions like that which has taken place since 1847.

<sup>3</sup> The Feudal System never existed in Poland. As pointed out by Professor Stubbs, the chief characteristic of Feudalism is the complete chain of dependence extending from the paramount lord to the lowest

the discovery of America. The real value of the precious metals has fallen in Poland, as in the richest parts of Europe. Spain and Portugal, the countries which possess the mines, and where these metals must be the cheapest, are, after Poland, the two most beggarly countries in Europe, pp. 250–252.

As the low value of gold and silver is no proof of the wealth of a country; so **NEITHER** is their high value any proof of its poverty. Though the low money price of corn be no proof of the poverty of the times, the low money price of poultry, game, &c., in proportion to that of corn, *is a most decisive one*. It shows:

- (1) Their great abundance in proportion to that of corn; and
- (2.) The uncultivated state of the greater part of the lands of the country, pp. 252–253.

Any rise in the money price of goods which proceeded from the degradation of the value of silver would affect all sorts of goods equally. But the rise in the price of provisions does not affect all sorts of provisions, therefore it cannot be altogether owing to the degradation of the value of silver. The price of corn during the sixty-four first years of this century has been lower than it was during the sixty-four last years of the preceding century, p. 253.

The rise in the price of some sorts of provisions may be owing, not to any degradation in the value of silver, but to a rise in the real value of land which produces them, to its increased fertility, or in consequence of extended cultivation, which indicates the advancing state of the country, pp. 253–256.

tenant. A Polish noble did not owe fealty to the king, much less to any of his brethren, whose unanimous vote might be checked by the 'Liberum veto.'

**Effects of the progress of improvement upon the real price of Manufactures.**

**IMPROVEMENT diminishes the real price of almost all manufactures.** That of the workmanship diminishes in all of them, in consequence of better machinery, of greater dexterity, and of a more proper division of work ; all of which are the effects of improvement. In some new manufactures, the rise in the real price of rude materials will more than compensate all the advantages which improvement can introduce into the execution of the work. The diminution of price in those manufactures, of which the materials are the coarser metals, has been remarkable. A movement of a watch can be now had for 20*s.*, which in the middle of the last century could not have been bought for 20*l.* The same may be said of the Sheffield and Birmingham ware,<sup>1</sup> pp. 256–257.

*Fine woollen cloth* is three or four times as cheap as it was towards the end of the 15th century : and the *coarse* is more than twice as cheap. The same will hold true in the prices of stockings. The woollen manufacture has received three capital improvements : (1.) The spinning wheel. (2.) Machines for the winding of worsted and woollen yarn. (3.) The fulling mill for thickening cloth. Neither wind nor water mills were known in England so early as the beginning of the 16th century ; in Italy they had been just introduced,<sup>2</sup> pp. 257–260.

<sup>1</sup> Improvement in these matters has been even more marked since Adam Smith's time.

<sup>2</sup> Rogers corrects Adam Smith on this point, asserting that both wind and water mills were very common in England in the 13th century, and the fulling mill not unknown. See his note on this passage, and his *History of Agriculture and Prices*.

## CONCLUSION OF THE CHAPTER.

**EVERY IMPROVEMENT** in the circumstances of the society tends either directly or indirectly to raise the real rent of land. The extension of improvement and cultivation, and the rise in the price of the rude produce of land, tend to raise it directly. *All those improvements in the productive powers of labour which reduce the real price of manufactures, and every increase in the real wealth of the society, tend indirectly to raise the real rent of land,* pp. 261–262.

**Neglect of improvement;** the fall in the real price of any part of the rude produce of land; the rise in the price of manufactures; and the declension of the real wealth of the society, *tend to lower the real rent of land,* p. 262.

The whole annual produce of the land and labour of every country naturally divides itself into—the rent of land;—the wages of labour;—and the profits of stock, p. 262. The interest of the *first* of these orders is *inseparably connected* with the general interest of the society. If they have any tolerable knowledge of their own interest, they will never attempt to mislead the public when it deliberates upon any regulation of commerce or police.<sup>1</sup> The security of their situation renders them too often ignorant and incapable of application,<sup>2</sup> p. 263. The interest of the *second* order is also strictly connected with that of the society. The wages of the labourer never rise so high as when the demand for labour is continually increasing. His employers consti-

<sup>1</sup> In this passage Adam Smith appears to have forgotten the bounty on the exportation of corn and the prohibition of the importation of Irish cattle, to which subsequent experience would add the Corn Laws. It is true that such short-sighted greediness is contrary to the permanent interests of the landowners; but if all men acted from enlightened self-interest, there would be but little evil in the world.

<sup>2</sup> Hence (honest and orthodox themselves), they have often submitted to be led by brilliant infidels like Bolingbroke.

tute the *third* order, that of those who live by profit. But the rate of profit does *not* necessarily rise with the prosperity, and fall with the declension of the society, being always highest in the countries which are going *fastest to ruin*,<sup>1</sup> p. 264. The interest of the third order has not, therefore, the same connection with the general interest of the society as that of the other two; it is sometimes different from, and even opposite to, that of the public. *The proposal of any new law or regulation of commerce, which comes from this order, ought not hastily to be adopted*, pp. 262-265.

<sup>1</sup> Adam Smith here confuses insurance against risk of loss with prospect of gain. He appears to have founded a hasty inference on the anomalous condition of Bengal under the administration of Vansittart.

*BOOK II.***OF THE NATURE, ACCUMULATION, AND EMPLOYMENT OF STOCK.****INTRODUCTION.**

IN the rude state of society it is not necessary that any stock should be accumulated, in order to carry on the business of the society.<sup>1</sup> Every man supplies, by his industry, his wants as they occur. But when the division of labour has been thoroughly introduced, the produce of a man's own labour can supply but a small part of his wants. The greater part must be supplied by the produce of other men's labour, which he must purchase with the price of the produce of his own. But this purchase cannot be made till such time as the produce of his own labour has been completed and sold ; during which, a stock of goods of different kinds must be stored somewhere, sufficient to maintain him, and also to supply him with the materials and tools of his work. The accumulation of stock must be previous to the division of labour ; and the subdivisions of labour will increase in proportion only to the increasing accumulation of stock. As the division of labour advances, the same number of people can work up a greater quantity of materials ; consequently, an equal quantity of provisions and a greater stock of materials and tools than

<sup>1</sup> Rogers denies that any human society can be conceived as existing wholly without accumulated stock, owing to the length and helplessness of man's infancy. Thornton gives an amusing picture of a savage capitalist.—Thornton's *On Labour*.

would have been necessary in a ruder state of things must be accumulated before hand. As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labour, so that accumulation leads to this improvement. The quantity of industry not only increases with the increase of stock, but in consequence of that increase the same quantity of industry produces a greater quantity of work, pp. 273-275.

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## CHAPTER I.

### Of the division of Stock.<sup>1</sup>

THE poor man derives no revenue from his stock, his revenue is derived from his labour, p. 275.

When a man possesses much stock, he reserves only a part of it for immediate consumption, from the remainder he endeavours to derive a revenue. His stock is therefore distinguished into that which is to afford him this revenue, which is called his capital; and into that which supplies his immediate consumption; and which consists

(1.) In what was originally reserved for this purpose: or

(2.) In his revenue as it comes in: or

(3.) In things purchased before, such as a stock of clothes, household furniture, &c., pp. 275-276.

#### A CAPITAL MAY YIELD A REVENUE.—

First, by being employed in raising, manufacturing, or purchasing goods, and selling them again with a profit. The capital employed in this manner affords no revenue till the goods are sold, and others purchased with the money; it is only by circulation

<sup>1</sup> For a criticism of this chapter, see Twiss's *View of the Progress of Political Economy*, p. 185 seq.

that it can yield a profit; it may therefore be called a **circulating capital**, p. 276.

Secondly, it may be employed in the improvement of land, and in purchasing instruments of trade, which yield profit without changing masters. Such capitals may be called **fixed capitals**, p. 276. Different occupations require different proportions, between the circulating and fixed capitals employed in them. The capital of a merchant is altogether circulating, unless his warehouse be considered as a fixed capital. Every master, artificer, or manufacturer must have some fixed capital. A tailor or a shoemaker needs but a small fixed capital; in iron works and coal mines a large one is necessary. The instruments of agriculture are to the farmer his fixed capital; the wages and maintenance of his servants his circulating capital. He makes a profit of the former by keeping them; and of the latter by parting with them. The price of *labouring cattle* is a fixed, their maintenance a circulating, capital. But both the price and maintenance of cattle *bought for sale* are circulating capitals. So also is the value of the seed; the farmer makes a profit by its increase, not by its sale, pp. 276-277.

The **GENERAL STOCK OF A COUNTRY** is divided into the same three portions, each of which has a distinct office.

The first is that portion which is reserved for immediate consumption, and which affords no revenue. It consists in a stock of food, clothes, household furniture, and mere dwelling houses. These may in particular instances yield a revenue to the proprietor, but they can afford none to the public, pp. 277-278.

The second portion into which the stock of a society divides itself is the **fixed capital** which

affords a revenue without changing masters. It chiefly consists,

- (1.) In all useful machines and instruments of trade which abridge labour.
- (2.) In buildings which are the means of procuring a revenue; as shops, farm houses, granaries, &c.
- (3.) In the improvements of land. And
- (4.) In the acquired and useful abilities of all the members of the society, pp. 278-279.

The third portion into which the general stock of the society is divided is the circulating capital which affords a revenue by changing masters. This is composed,

- (1.) Of the money<sup>1</sup> by means of which the rest are distributed to the consumers.
- (2.) Of the stock of provisions which are in possession of the butcher, farmer, &c.
- (3.) Of unmanufactured materials. And
- (4.) Of work made up and completed, but which is still in the hands of the merchant or manufacturer.

Of these four parts, provisions, materials, and finished work are either annually, or in a longer or shorter period, withdrawn from it, and placed either in the fixed capital, or in the stock reserved for immediate consumption, pp. 279-280.

Every fixed capital is derived from, and requires to be supported by, a circulating capital without which it can yield no revenue. To maintain and increase the stock reserved for immediate consumption is the sole end

<sup>1</sup> Money may, no doubt, be considered as circulating capital with reference to its possessor, or with reference to foreign trade. But, considered as a necessary though costly portion of the machinery by which commerce is carried on, it rather resembles fixed capital. See also Twiss's *View of Progress of Political Economy*, pp. 189-190.

and purpose both of the fixed and circulating capitals. It is this stock which feeds, clothes, and lodges the people. Their riches or poverty depend on the **ABUNDANT OR SPARING SUPPLIES** which these two capitals can afford to the stock for immediate consumption. These supplies are principally drawn from the produce of land, the mines, and fisheries; which afford provisions and materials, of which part is wrought into finished work, and by which are replaced the provisions, materials, and finished work continually withdrawn from the circulating capital: from mines, too, is drawn what is necessary for *maintaining* and augmenting that part of it which consists in money, and which must in time be wasted and worn out, pp. 280-281.

Lands, mines, and fisheries require a fixed and a circulating capital to cultivate them, and their produce replaces with a profit, not only those capitals, but all others in the society. The farmer annually replaces to the manufacturer the provisions consumed, and materials wrought up the year before; and the manufacturer replaces to the farmer the finished work, which he had worn out in the same time. The produce of land draws the fish from the waters, and extracts minerals from the bowels of the earth, pp. 281-282.

The produce of land, mines, and fisheries is in the compound proportion to their fertility and the capitals employed about them. In all countries where there is tolerable security every man will endeavour to employ his stock in procuring *present enjoyment*, or *future profit*: in the former case, it is a stock reserved for immediate consumption; in the latter it is employed in procuring profit as a fixed or circulating capital, pp. 282-283.

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## CHAPTER II.

**Of Money considered as a particular branch of the general stock of the Society, or of the expense of maintaining the national Capital.**

*IT HAS BEEN SHEWN* that the price of every particular commodity resolves itself into some one, or other, or all of three parts: *viz.* The wages of labour;—the profits of stock;—and the rent of land. The same is true with regard to all the commodities which compose the whole annual produce of the land and labour of every country. The value of this whole annual produce constitutes a revenue to the inhabitants of every country. As in a private estate we distinguish between the *gross* and the *neat* rent, so we may likewise in the revenue of all the inhabitants of a great country, pp. 283—284.

The *gross rent* of a private estate comprehends what is paid by the farmer; the *neat rent* is what remains after deducting the expense of management, repairs, &c., or what he can afford to place in his stock reserved for immediate consumption. **His real wealth is in proportion to his neat rent**, p. 284.

The *gross revenue* of all the inhabitants of a great country comprehends the whole annual produce of their land and labour; the *neat revenue* what remains free after deducting the expense of maintaining:

- (1.) Their fixed capital; and
- (2.) Their circulating capital, or what, without encroaching on their capital, they can place in their stock reserved for immediate consumption.

Their real worth too is in proportion to their *neat revenue*.—That the expense of maintaining the fixed capital must be excluded from the *neat revenue* of the

society is evident, since the materials necessary for machines, instruments of trade, profitable buildings, &c., can make no part of it. The intention of the fixed capital is to increase the productive powers of labour. The expense properly laid out in the fixed capital is always repaid with great profit, and may be compared to that of repairs in a private estate. When by a proper direction the expense is diminished, the gross rent will be the same as before, and the neat rent is necessarily augmented, pp. 284-286.

Of the *four parts which compose the circulating capital, money, provisions, materials, and finished work, the three last are regularly withdrawn from it*, and placed either in the fixed capital of the society, or in their stock reserved for immediate consumption. Whatever part goes to the latter makes a part of the neat revenue of the society, p. 286.

The circulating capital of *an individual is totally excluded* from making any part of his neat revenue, which must consist altogether in his profits. But the circulating capital of *a society is not excluded* from making a part of their neat revenue. The whole goods in a merchant's shop cannot be placed in his stock reserved for immediate consumption, but they may in that of other people, who may replace their value to him without diminishing his capital or theirs, p. 284.

**MONEY**, therefore, is the only part of the circulating capital of a society the maintenance of which can occasion any diminution in their neat revenue. As it affects the revenue of the society it bears a near resemblance to the **fixed capital**. For,

I. As machines and instruments of trade, so also money requires certain expenses first to make, and afterwards to support, which expenses make a part of the gross revenue, but are deductions from the neat revenue of the society. **Money**, instead of augmenting the stock reserved for immediate consumption,

is employed in supporting the expensive instrument of commerce, by means of which every individual has his subsistence distributed to him, pp. 286-287.

II. As instruments of trade make no part either of the gross or neat revenue, so money, by means of which the whole revenue of the society is distributed among all its members, makes no part of that revenue. The wheel of circulation is different from the goods circulated by means of it. The revenue of a society consists altogether in those goods, and not in the wheel which circulates them. In computing the revenue of any society, we must always, from their whole circulation of money and goods, deduct the whole value of the money. The following considerations will make this evident.—When we speak of any particular sum of money, we mean the number of metal pieces of which it is composed, or the quantity of goods which it will purchase. Now the wealth which it denotes is equal to one of these values, and to the latter more properly than the former. Thus a weekly pension of a guinea will purchase for a person a certain quantity of subsistence. In proportion as this quantity is great or small, so is his real revenue. It does not consist in the piece of gold, but in what he can exchange it for. Though the revenue of all the inhabitants of any country may be paid them in money, their real riches must be in proportion to the quantity of consumable goods which they can purchase with this money. The whole revenue of all of them cannot be equal to both the money and the goods, but only to one of those values, and to the latter more properly than to the former. The amount of the metal pieces annually paid to an individual may be precisely equal to his revenue; but the amount of metal pieces which circulate in a society can never be equal to the revenue of all its members. Money,

therefore, the great wheel of circulation, like all other instruments of trade, though it makes a part of the capital, makes no part of the revenue of the society to which it belongs, pp. 287-290.

III. As every saving in the expense of the instruments of trade, which compose the fixed capital, is an improvement in the neat revenue of the society, so is every saving in the expense of collecting and supporting that part of the circulating capital which consists in money.—The whole capital of every man must be either fixed or circulating; the smaller the one, the greater must be the other. Every saving in the expense of maintaining the fixed capital must increase the fund which puts industry into motion, and consequently must increase the real revenue of the society, p. 290.

The substitution of paper<sup>1</sup> in the room of gold and silver money replaces a very expensive instrument of commerce with one less costly. In what manner it tends to increase the revenue of the society requires

<sup>1</sup> Paper is made to replace gold and silver in commercial transactions, chiefly by means of Bills of Exchange and Promissory Notes.

‘A Bill of Exchange is an open letter of request from one man to another, desiring him to pay a sum named therein to a third person on his account.’

‘A Promissory Note is an open letter of engagement from one man to another, promising to pay him a certain sum of money therein specified.’

The above definitions are from Stephen’s *Commentaries*. More elaborate definitions will be found in Byles on *Bills of Exchange*, p. 5 (ninth edition). Bank notes may be regarded as a variety of Promissory Notes, and Cheques as a variety of Bills of Exchange, your banker being always your debtor if you have a balance, or your quasi debtor if you are permitted to overdraw your account.—Byles, p. 13. (An I O U is not a Promissory Note, but merely evidence of a debt.)

The Accommodation Bill (to which the epithet Fictitious is often applied), although in form a Bill of Exchange, is in substance merely a Promissory Note with two securities instead of one. See Mill’s *Political Economy*, iii. 11, 4. These fictitious or accommodation bills are the instruments employed in the process of ‘drawing and re-drawing’—a process the expense of which has been over-estimated by our author, sound as his observations are in the main.

some explication. There are several sorts of paper money; the notes of banks and bankers are best known. When the people have such confidence in any banker as to believe that he is always ready to pay upon demand such of his notes as are presented to him, these notes come to have the same currency as gold and silver money, pp. 290–291.

A particular banker lends notes, we shall suppose, to the extent of 100,000*l.* As those notes serve all the purposes of money, his debtors pay him interest for them, which is the source of his gain. Though he has notes to the extent of 100,000*l.* in circulation; 20,000*l.* in gold and silver may frequently be sufficient for answering occasional demands. Thus 80,000*l.* of gold and silver are, in this manner, spared from the circulation of the country; and the whole circulation may be conducted with a fifth part only of the gold and silver which would otherwise have been requisite, p. 291.

Suppose the circulating money of a country to amount to one million sterling, that sum being sufficient for circulating the whole annual produce of their land and labour:—If then bankers issued notes to the extent of one million, reserving 200,000*l.* in their coffers to answer occasional demands, there would remain in circulation 1,800,000*l.* of paper and money together: but one million sterling is sufficient to circulate the annual produce of the land and labour. The other 800,000*l.*, being the sum over and above what can be employed in the circulation of the country, will seek profitable employment abroad; but the *paper* cannot go abroad. Gold and silver, therefore, to the amount of 800,000*l.* will be sent abroad, and the channel of home circulation will remain filled with a million of paper, instead of metal which filled it before. The *quantity of money sent abroad will be exchanged for foreign goods, to supply the consumption either of some other foreign country or their own*, pp. 291–292.

In the former case, whatever profit is made will be an addition to the revenue of their own country. If they employ it in purchasing foreign goods for home consumption, they may either purchase

(1.) Such goods as will be consumed by idle people who produce nothing; as foreign wines, silks, &c., or

(2.) Materials, provisions, &c., to employ and maintain an additional number of industrious people.

So far as it is employed in the *first* way, it is injurious to the society. So far as it is employed in the *second* way, it promotes industry, and increases the revenue of the society. The greater part of the gold and silver employed in purchasing foreign goods for home consumption *must* be employed in purchasing those of the second kind. Since, the demand of idle people for foreign goods being the same, or nearly the same, as before, a very small part of the money forced abroad by the operations of banking is likely to be employed in purchasing foreign goods for their use, pp. 293-294.

In computing the quantity of industry which a circulating capital can employ, regard must be had only to those parts which consist in *provisions, materials, and finished work*. *Money, which serves to circulate these, must be deducted.* Industry is put into motion by materials to work on, tools to work with, and wages. Though the workman is commonly paid with money, his real revenue consists *not* in the money but in the money's worth. The quantity of industry which a capital can employ *must be equal* to the number of workmen whom it can supply with materials, tools, and maintenance. *Money may be necessary to purchase these,* but the quantity of industry cannot be equal to the money, and also to the things purchased; but only to one of those two values, and to the latter more properly than the former, pp. 294-295.

When paper is substituted in the room of gold and silver, the quantity of materials, tools, and maintenance which a circulating capital can supply may be increased by the whole value of gold and silver which used to be employed in purchasing them. The value of the wheel of circulation is added to the goods circulated. The proportion which the circulating money bears to the annual produce of any country has been computed at a fifth, tenth, and even a thirteenth;<sup>1</sup> but whatever it be, it must bear a considerable proportion to that part destined for the maintenance of industry. When, therefore, paper supersedes, suppose four-fifths of the circulating gold and silver, and the greater part of that four-fifths be applied to the maintenance of industry, it must make a considerable addition to the quantity of industry, consequently to the annual produce of land and labour, p. 295.

An operation of this kind took place some years ago in Scotland, by the erection of new banking companies, by means of which it has been said that the trade of Glasgow has been doubled, and that of Scotland more than quadrupled,<sup>2</sup> pp. 295–296.

The value of the gold and silver money which circulated in Scotland in 1709 was about a million sterling; this was the whole circulation of that country. The circulation *cannot now* be less than two millions, of which the gold and silver does not amount to a fourth part. The real riches of Scotland have not suffered by this diminution of the circulating gold and silver. The annual produce of their land and labour has evidently been augmented, pp. 296–297.

The PROFIT of banks and bankers principally consists in advancing their own notes, in discounting bills of exchange, deducting legal interest till the bills become

<sup>1</sup> It is now estimated at from one-sixth to one-eighth.

<sup>2</sup> For an interesting account of the Scotch Banking System see *Quarterly Review*. Article vii. No. 84. 1830.

due. They have also another method of issuing their own notes; by granting *cash accounts* to the extent of a certain sum to any individual who can give sufficient security for the repayment when demanded. In Scotland the sum so borrowed may be paid by any instalments, however small. All men of business, therefore, find it convenient to keep such cash accounts, and are thereby interested to promote the trade and support the credit of those banking companies. By means of these cash accounts the merchant can carry on a greater trade than he otherwise could; as he is able to employ **ALL his own capital in trade**, without *reserving any part of it* in his coffers for occasional demands,<sup>1</sup> pp. 297–299.

The *whole paper money of every kind*, which can circulate in any country, **can never exceed** the value of the gold and silver of which it supplies the place. If at any time it should exceed that sum, the excess will almost immediately return upon the bankers, to be exchanged for gold and silver, which may be rendered useful abroad, though paper could not. There will therefore be a run upon the banks to the whole extent of this superfluous paper, and if any difficulty were shown in payment, the alarm would increase the run, pp. 299–300.

Over and above common expenses, those of a bank consist:

- (1.) In keeping a large sum of money in their

<sup>1</sup> Ricardo is disposed to deny any advantage to these cash accounts, on the ground that, if a banker advance in this form, he has so much the less to advance by discounting Bills of Exchange. See Ricardo's *Political Economy*, cap. xxvii.

But McCulloch has pointed out (and, I think, with justice) that, although advances may not be enlarged, they are greatly facilitated by cash accounts; since the merchant or trader who has obtained such an account may operate upon it at any time by drafts to any amount—an advantage he could not enjoy without much trouble if the advances were made to him by the discount of Bills of Exchange.

coffers to answer occasional demands, from which they receive **NO** interest; and

(2.) In replenishing those coffers as fast as they are emptied.

A bank issuing more paper than can be employed in the circulation of the country ought to increase its quantity of gold and silver, not only in proportion to this excessive increase of their circulation, but in a much greater proportion, which increases the *first* article of expense. Their coffers too, though they ought to be filled much fuller, yet must empty themselves faster than if their business was confined within more reasonable bounds. The coin drawn from them will not lie idle, but be sent abroad, which will enhance the *second* article of expense, pp. 300-301.

By issuing too great a quantity of paper, the Bank of England was for many years obliged to coin gold to the extent of 850,000*l.* a year, at a loss of more than  $2\frac{1}{2}$  per cent., giving *4l.* per ounce for the bullion, and issuing it in guineas at *3l. 17s. 10\frac{1}{2}d.* the ounce. The Scotch banks by a similar excess have been frequently at the expense of *collecting* money at two per cent., and paying  $\frac{1}{2}$  per cent. for carriage; besides being put to other very considerable inconveniences. The gold coin was paid by the bank in exchange for that part of their paper which was over and above what could be employed in the circulation of the country, and being above what could be employed in that circulation, the heaviest and best pieces were sent abroad or melted down, and sold again to the bank at *4l.* an ounce. Hence, the necessity of the great annual coinage to supply the Bank of England. The *over-trading* of some bold projectors was the original cause of this excessive circulation of paper money, pp. 301-303.

A bank can advance, with propriety, to a merchant, *that part of his capital which he would otherwise be*

*obliged to keep by him unemployed*, and in ready money for answering occasional demands. If the paper money never exceeds this value, it can never exceed the quantity which the circulation of the country can easily employ. When a bank discounts bills of exchange, drawn by *real creditors* upon *real debtors*, and which are *paid when due*, little or no expense can be necessary for the replenishing its coffers, pp. 303–304.

A merchant, without overtrading, may frequently have occasion for a sum of ready money, even when he has *no bills to discount*. When a bank advances him such sums upon the easy terms of the banking companies of Scotland, it dispenses him entirely from the necessity of keeping any part of his stock unemployed. The bank, however, should carefully observe whether in short periods the repayments of such customers be regular, and equal to the advances made to them. If they are, it *may safely* continue to deal with them, but not otherwise. The banking companies of Scotland were for a long time careful to require frequent and regular repayments from all their customers. By this attention, they not only saved much extraordinary expense of replenishing their coffers, but gained two other advantages.

(1.) By this attention, they were enabled to form a tolerable judgment concerning the thriving or declining circumstances of their debtors; and

(2.) They secured themselves from the possibility of issuing more paper money than what the circulation of the country could easily employ, pp. 304–306.

When by the convenience of discounting bills, and of cash accounts, creditable traders can be dispensed from the necessity of keeping any part of their stock unemployed, they can reasonably expect no farther assistance from banks and bankers. A bank cannot,

consistently with its own interest, advance to a trader the whole or even a great part of the *circulating capital* with which he trades, since the returns would be too slow to suit the conveniency of a bank: *still less could it afford to advance him any considerable part of his fixed capital*, for in this, the returns are still slower. Traders may with *propriety*, carry on a considerable part of their projects with borrowed money, provided their own capital be sufficient to ensure that of their creditors, should the success of their projects fall short of expectation. Even with this precaution, the money should *not* be borrowed of a bank, but of private people who propose to live upon the interest of their money, without any trouble of employing the capital, pp. 307-308.

When the banking companies of Scotland had given all the assistance to traders which they ought to give, or even somewhat more, the traders were not satisfied: they thought the banks bound to supply their own deficiencies, and to provide whatever capital they wanted to trade with. This the banks refused, and the traders *had recourse to the expedient of drawing and re-drawing*; this practice shall be explained, pp. 308-309.

Money is more readily advanced upon bills of exchange, than upon any other species of obligation, owing to the privileges attaching to them. If, when a bill becomes due, the *acceptor* does not pay it, he becomes from that moment a *bankrupt*. The same happens to the *drawer*, and even to all those who have *endorsed* it, if they fail in payment: this renders bills of exchange the best paper security. A trader—A in Edinburgh, we shall suppose, draws a bill upon B in London, payable two months after date. In reality B owes nothing to A, but accepts A's bill *upon condition*, that before the term of payment he shall re-draw upon A for the same sum together with *interest and commission*. This practice has sometimes gone on for years, the bill always returning upon A in Edinburgh, with the accumulated

interest and commission. The interest was five per cent. for the year, and the commission never less than  $\frac{1}{2}$  per cent. on each draught. The commission repeated six times in the year, whatever money A might raise by this expedient, must have cost him at least eight per cent. This practice was called raising money by circulation. The ordinary profits of stock, in the greater part of the mercantile projects, *could not support this interest*. The bills which A drew upon B, he discounted two months before they became due, with some bank in Edinburgh; and the bills which B re-drew upon A, he discounted with the bank at London. Whatever was advanced upon these bills was advanced in paper. Though the bills upon which this paper had been advanced were all repaid when due, yet the value upon the *first bill* was never *really* returned; because before each bill was due another was drawn to a greater amount. **This payment was therefore fictitious**, pp. 309–312.

The paper which was issued upon those circulating bills of exchange, amounted often, to the *whole fund* destined for carrying on some vast project. The greater part of the *paper* was, consequently, **over and above** the value of the gold and silver which would have been circulated in the country had there been no paper money, and upon that account it immediately returned upon the banks, in order to be exchanged for gold, p. 312.

When two people who are continually drawing and re-drawing, discount their bills with the same banker, he must immediately discover that they are trading with his capital, not with their own; but when they discount their bills with different bankers, the discovery is not so easy, more especially when the same two persons run the round of a great circle of projectors. When a banker had even made this discovery, it might be too late; he might find that by refusing to discount more bills of the projectors he would make them bankrupts, and perhaps ruin himself. He must, therefore, gradually make the

difficulties of discounting greater, in order to get out of the circle, and to force the projectors to have recourse to other bankers. The difficulties which the Bank of England, the bankers of London, and the more prudent bankers of Scotland began, when all had gone too far, to make about discounting bills enraged the projectors in the highest degree, for whose relief a *new bank* was expressly established. It was the avowed principle of this bank to advance upon reasonable security the *whole capital* which was to be employed in those improvements, of which the returns are most slow. By this means it issued great quantities of its notes, which, being for the most part over and above what the circulation of the country could employ, returned to be exchanged for gold and silver as fast as they were issued. By this method they were, in a few months, driven to the ruinous expedient of drawing upon London, and when the bill came due, paying it together with interest and commission by another draught upon the same place; and in about two years they stopped payment, when they had in circulation 200,000*l.* in notes, and bills of exchange to the value of 600,000*l.* This bank had thus advanced in two years 800,000*l.* at five per cent. interest; for 600,000*l.* of which they paid upwards of eight per cent., consequently losing three per cent. upon three fourths of all their dealings, pp. 312–315.

By means of this bank projectors had a temporary relief afforded to them, and the other banks easily got out of the circle. But in the long run, the distress which this bank meant to relieve was greatly increased. Had this operation proved practicable, and even profitable to the bank as a mercantile company the country could have derived no benefit from it. The money to be lent could not have been augmented, pp. 315–318.

That the industry of Scotland languished for want of money to employ it, was the opinion of the famous Mr. Law. By establishing a bank of a particular kind

he imagined paper might be issued to the amount of the whole value of all the lands in the country. Scotland did *not* adopt his project. With some variations, it was adopted in France. The idea of the possibility of multiplying paper money to almost any extent was the foundation of the Mississippi scheme, the most extravagant project, both of banking and stock-jobbing, the world ever saw, p. 318.<sup>1</sup>

The BANK OF ENGLAND is the greatest bank of circulation in Europe; it was established by Act of Parliament, in 1694. At that time it advanced to government 1,200,000*l.* at eight per cent. interest, and 4,000*l.* a year for the expenses of management. In 1697, it was allowed to increase its capital to 2,201,171*l.* 10*s.* for the support of public credit; bank notes having been in the preceding year at twenty per cent. discount, and during the great re-coining of silver, which was going on at the same time, the Bank had stopt the payment of its notes.<sup>2</sup> In pursuance of the 7th of Anne, the Bank paid into the Exchequer 400,000*l.*, making in all 1,600,000*l.*, for which it continued to receive only the 96,000*l.* interest, and 4,000*l.* for management. By the same Act the Bank cancelled Exchequer bills, to the amount of 1,775,027*l.* 17*s.* 10*½d.* at six per cent. interest, and was allowed to double its capital. In 1708, therefore, the capital of the Bank amounted to 4,402,343*l.*, and it had advanced to government 3,375,027*l.* 17*s.* 10*½d.*, and in 1710 the Bank capital amounted to 5,559,995*l.* 14*s.* 8*d.* By the 3rd George I. the Bank delivered up two millions of Exchequer bills to be cancelled. It had, therefore, advanced to government 5,375,027*l.* 17*s.* 10*½d.* In 1722, the Bank pur-

<sup>1</sup> For a popular account of the Mississippi scheme see Mackay's *Extraordinary Popular Delusions*, and Twiss's *View of the Progress of Political Economy*. Lecture IV.

<sup>2</sup> This stoppage of payment was by no means complete, and was resorted to in consequence of a conspiracy of the goldsmiths, at that time the private bankers of London. See Macaulay (*History of England*) for a clear account of the foundation and early struggles of the Bank.

chased stock of the South Sea Company, to the amount of 4,000,000*l.*, and increased its capital by 3,400,000*l.* At this time the Bank had advanced to the public 9,375,027*l.* 17*s.* 10*½d.*, for which it *received* interest; and its capital stock, upon which it *paid* dividends, amounted to 8,959,995*l.* 14*s.* 8*d.* In 1746, the money advanced to the public was 11,686,800*l.*, and its capital was 10,780,000*l.* And by the 4th of George III. the Bank paid 110,000*l.* for the renewal of its charter. The dividend of the Bank has varied at different times. **The stability of the Bank of England is equal to that of the British Government.** All that it has advanced to the public must be lost before its creditors can sustain any loss. It acts as a great state engine. It receives and pays a great part of the annuities which are due to the creditors of the public. It circulates Exchequer bills, and it advances to government the annual amount of the land and malt taxes. In these operations it has frequently overstocked the circulation with paper money. It discounts bills, and has on many occasions supported the credit of the principal houses of England, Hamburg, and Holland. Upon other occasions this great company has been reduced to the necessity of paying in sixpences, pp. 319–321.'

It is not by augmenting the capital of the country, but by rendering a greater part of that capital more productive than it would otherwise be, that the most judicious operations of banking can increase the industry of the country. The gold and silver money which circulates in a country is, like the ready money of a dealer, all dead stock. It is a valuable part of the capital of a country, which produces nothing to the country. It may be compared to a highway, which carries grass and corn to market, but itself produces neither; and the judicious operations of banking, by providing a waggon way through the air, enable the country to convert a great part of these highways into good corn and pasture

lands, and therefore to increase the annual produce of its land and labour. The commerce and industry of a country may be thus augmented, *but they are not altogether so secure as on the solid ground of gold and silver.* Besides, they are more liable to several accidents, which no prudence can prevent. A successful invasion would occasion much greater confusion in a country, where the circulation was carried on chiefly by paper, than in one where the greater part of it was carried on by means of gold and silver, pp. 321–322.

The circulation of every country may be considered as divided into two branches; *the circulation of dealers with one another, and that between dealers and their customers.* Each requires a certain stock of money. The whole of the goods circulated between the dealers can never exceed the whole of those circulated between dealers and consumers. The former requires *large* sums for each transaction; the latter frequently requires only small sums: but the small ones circulate much faster than the large ones. Therefore the annual circulation of the consumers may require a smaller quantity of money, p. 323.

Where there are no bank notes under 10*l.* paper money will confine itself chiefly among the dealers; but where bank notes are issued for 20*s.* and under, paper money extends itself to a considerable part of the circulation between dealers and consumers. Where paper money is chiefly confined to dealers there is plenty of gold and silver; but where it makes a considerable part of the circulation between dealers and consumers it banishes gold and silver out of the country, pp. 324–325.

Though paper money should be principally confined to the circulation between dealers, yet banks might give nearly the same assistance to the industry of a country, by discounting real bills, and by lending on cash accounts, p. 325.

Paper money, consisting of notes, issued by people of undoubted credit, and payable on demand, is equal to gold and silver money : nor does it necessarily increase the money price of commodities ; for the quantity of gold and silver taken from the currency is always equal to the quantity of paper added to it. It would be otherwise with paper money, consisting of promissory notes, the immediate payment of which was made, in any respect, conditional. When it was optional with the bankers of Scotland to pay their notes immediately on demand, or six months after presentment, with legal interest, they were at a discount, pp. 326–328.

In Yorkshire, the paper currencies were degraded below the value of gold and silver ; for sometimes the payment even of sixpence depended upon the condition that the holder of the note should bring change for a guinea, p. 328.

The paper currencies of North America consisted formerly in government paper, which was not exigible till several years after it was issued. But 100*l.* payable fifteen years hence at six per cent. is equal only to about 40*l.* ready money. To oblige a creditor to accept of this for 100*l.* was downright fraud. Hence, the equity of the law which declared that no paper currency should be deemed a legal tender of payment. The paper money of *Pennsylvania*, never sunk below the value of gold and silver. This colony, however, raised the denomination of its coin, ordering five shillings sterling to pass for six shillings and three-pence, under pretence of preventing the exportation of coin. It was found, however, that the price of goods imported rose exactly in proportion as the denomination of coin was raised, which was exported as fast as ever, pp. 328–329.

If a certain proportion of the taxes *must* be paid in paper, and the Bank were careful to keep the quantity of paper somewhat below what could be employed in

this manner, the demand for it might be such as to make it bear a premium, p. 330.

A paper currency which falls below the value of gold and silver coin does not sink the value of those metals. The proportion between the value of the precious metals and that of goods depends on the richness or poverty of the mines which happen at any particular time to supply the great market of the commercial world; and also on the labour necessary to bring the metals and the goods to market, p. 331.

The multiplication of bankers, who are restrained from issuing notes under a certain sum, and who are also subjected to the obligation of the immediate and unconditional payment of those notes, increases the security of the public. The competition obliges *all* to be more circumspect in their conduct; and the circulation being divided into a greater number of parts, the failure of any one company becomes of less consequence to the public, p. 331.

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### CHAPTER III.

#### Of the accumulation of Capital, or of productive and unproductive Labour.<sup>1</sup>

**PRODUCTIVE** labour, as that of the manufacturer, adds to the value of the subject on which it is bestowed. *Unproductive* labour, as that of the menial servant, has no such effect. The manufacturer *is no expence* to his master, his wages being restored with a profit. The maintenance of a menial servant never is restored. The labour of the latter, however, has its value.—The labour

<sup>1</sup> The reproach supposed to be conveyed in the term ‘unproductive’ has caused some confusion. See, for example, M’Culloch’s note on this passage. Mill denies that the term ‘unproductive’ necessarily implies any stigma, since production is not the sole end of human existence. See Mill, i. 3, 1, Fawcett, cap. iii., and Twiss’s *View of the Progress of Political Economy*, p. 171 seq.

of the manufacturer realises itself in some vendible commodity which lasts after the labour is past : that of the menial servant perishes in the very instant of performance, pp. 332-333.

The labour of some of the most respectable orders in society is like that of menial servants. The sovereign, and all the officers of justice and war, are unproductive labourers. They are servants of the public, and maintained by the industry of the people. Their service produces nothing for which an equal quantity of service can afterwards be procured. In the same class must be ranked churchmen, lawyers, physicians, men of letters, players, buffoons, opera-singers, &c. p. 333.

Productive and unproductive labourers, and those who do not labour at all, are all maintained by the annual produce of the country. This produce has its limits, and *is the effect* of productive labour. The annual produce of the land and labour of every country divides itself into two parts : one of which is destined for renewing the *provisions, materials, and finished work*, which had been withdrawn from the capital ; the other for constituting a revenue either as *profit of stock, or as rent of land*. The former is employed to maintain productive hands only. The latter may maintain either productive or unproductive hands, pp. 333-334.

UNPRODUCTIVE labourers, and those who do not labour at all, are all maintained by revenue ; either

(1.) by that part of the annual produce originally destined for constituting a revenue to particular persons, as *rent of land, or profits of stock* ; or

(2.) by that which though originally destined for replacing a capital, and for maintaining productive labourers only, yet when it comes into their hands, whatever part is above their necessary subsistence, may be employed in maintaining either productive or unproductive hands.

Thus the landlord, merchant, and even workmen,

may maintain a menial servant, or go to a play, and so contribute towards maintaining one set of unproductive labourers; or he may pay taxes, and thus help to maintain another set equally unproductive. The rent of land and the profits of stock are therefore the principal sources from which unproductive hands derive their subsistence, p. 335.

The proportion between the productive and unproductive hands depends upon the proportion between that part of the annual produce which is destined for replacing a capital, and that which is destined for constituting a revenue. This proportion is very different in rich and poor countries.—At present in the opulent countries of Europe, a very large portion of the produce of the land is destined for replacing the capital of the farmer; the other for paying his profits and the rent of the landlord. But anciently, under the feudal government, a very small portion of the produce was sufficient to replace the capital *employed in cultivation*;<sup>1</sup> it consisted only in a few wretched cattle, which also generally belonged to the landlord. In the present state of Europe the share of the landlord seldom exceeds a third, sometimes not a fourth part of the whole produce of the land, pp. 336—337.

**Manufactures, now, require great capitals;** formerly very small capitals were sufficient; but their profits must have been great, as the rate of interest was nowhere less than ten per cent. At present the rate of interest is nowhere greater than six per cent. and in some parts it is as low as two per cent. The profit of stock is greater in a rich than in a poor country, because the stock is

<sup>1</sup> The value of the fee simple of a farm, compared with the value of the stock upon it, was really much less five centuries ago than at the present day. Then the value of the land was about one-third of the value of the stock; now the value of the stock is about one-third of the value of the land. Rent also has increased in a ratio very much greater than that stated in the text. See Rogers's note on passage, &c.—*Agriculture and Prices*, i. cap. 28.

much greater;—in proportion to the stock, the profits are generally less. That part of the annual produce destined for replacing a capital, is greater in rich than in poor countries, and bears a greater proportion to that which is immediately destined for constituting a revenue either as rent or profit. The proportion between the funds destined for the maintenance of productive labour, and those which are employed in supporting unproductive labour, determines, in every country, the character of the inhabitants, as to industry or idleness. We are more industrious than our forefathers, because the funds destined for the maintenance of industry are much greater in proportion to those likely to be employed in the maintenance of idleness than they were two or three hundred years ago. In manufacturing towns the inferior people are in general industrious;—in towns principally supported by the residence of a court, they are generally idle.<sup>1</sup> In a city where a great revenue is spent, it is difficult to employ a capital with advantage for any other purpose than supplying the consumption of that city. The idleness of the greater part of the people corrupts the industry of those who ought to be maintained by the employment of capital. The proportion between the capital and revenue, therefore, seems everywhere to regulate the proportion between industry and idleness, pp. 337—340.

CAPITALS are increased by parsimony and diminished by prodigality. Parsimony, and *not* industry, is the immediate cause of the increase of capital. Parsimony, by increasing the fund destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of the subject on which it is bestowed.<sup>2</sup> This gives an additional value to the annual produce, p. 340.

<sup>1</sup> For some useful remarks upon the effect produced on a country by colonies of wealthy foreign residents, see Cairnes's *Leading Principles of Political Economy*, p. 33.

<sup>2</sup> Rogers here points out that Adam Smith recognised the accumula-

**What is annually saved is as regularly consumed as what is annually spent, but by a different set of people.** What a rich man *spends* is consumed by idle guests, and menial servants. What he saves, being employed as a capital, is consumed by labourers, manufacturers, &c., who produce with a profit, the value of their annual consumption, p. 341.

By what a *frugal* man *annually saves*, he affords maintenance to an additional number of productive hands, and establishes, as it were, a perpetual fund for the maintenance of an equal number in time to come. The *prodigal*, by *diminishing* the funds destined for the employment of productive labour, diminishes the quantity of that labour, and the value of the annual produce of the land and labour of the whole country, the real wealth and revenue of its inhabitants. Though the expense of the prodigal be altogether in *home-made* commodities, and therefore not occasioning any exportation of gold and silver, its effect upon the productive funds of the society would still be the same. If the quantity of food and clothing consumed by unproductive, had been distributed among productive hands, they would have reproduced, together with a profit, the full value of their consumption. There would have been two values instead of one;—the same quantity of money would have remained in the country, and a reproduction of an equal value of consumable goods would have taken place, pp. 341–342.

The same quantity of money cannot remain in any country in which the value of the annual produce diminishes. The sole use of money is to circulate consumable goods; its quantity must, therefore, be determined by the value of the goods circulated. Their value must diminish as the value of the annual produce of the country diminishes, and along with it the quantity tions of industry and parsimony as dominant causes of the increase of population.

of money which can be employed in circulating them. But the money thrown out of domestic employment will be sent abroad to purchase goods which may be of use at home, pp. 342-343.

The quantity of money, on the contrary, must increase as the value of the annual produce increases: for the value of the consumable goods annually circulated being greater, will require a greater quantity of money to circulate them.<sup>1</sup> A part of the increased produce, therefore, will naturally be employed in purchasing the additional quantity of gold and silver necessary for circulating the rest. Whether, therefore, the real wealth of a country consist in the value of the annual produce of its land and labour; or, as vulgar prejudices suppose, in the quantity of the circulating precious metals, *every prodigal appears to be a public enemy,*<sup>2</sup> and every frugal man a public benefactor, p. 343.

The EFFECTS of misconduct are often the same as those of prodigality. Unsuccessful projects tend in the same manner to diminish the funds destined for the maintenance of productive labour, though the capital is consumed by productive hands only, yet they do not reproduce the full value of their consumption. The circumstances of a great nation cannot be much affected by the prodigality or misconduct of individuals. The principle which prompts to *expence*, is the passion for present enjoyment, which in general is but momentary or occasional. But the principle which prompts to *save*, is the desire of bettering our condition, which never leaves us: accordingly the principle of frugality seems to predominate very greatly. With regard to

<sup>1</sup> This reasoning is still valid, in spite of the general substitution of paper for gold and silver in all large transactions. See Fawcett, p. 367 seq.

<sup>2</sup> In all probability, the prodigal would never have been looked upon as a public benefactor had not the leaders of opinion upon mercantile questions been members of the selling class. Prodigality often enriches individual traders. See Mill's *Political Economy*, iii. 17 4, and Rogers's note on passage.

misconduct, the number of successful undertakings is everywhere much greater than that of unsuccessful ones. Some men indeed do not avoid bankruptcy as some do not avoid the gallows,<sup>1</sup> pp. 344–345.

Great nations are never impoverished by *private*, though they sometimes are by *public* prodigality and misconduct. Almost the whole of the public revenue in most countries is employed in maintaining unproductive hands. Such are the persons who compose a *court*; an ecclesiastical establishment, fleets, and armies. If these are multiplied to an unnecessary number, they may consume so large a share of the annual produce as to encroach on a capital destined for the maintenance of productive labour. In most cases the constant effort of every man to better his condition, the principle from whence national as well as private opulence is derived, is sufficiently powerful to maintain the progress of improvement in spite of the extravagance and errors of government, pp. 345–346.

The annual produce of land and labour can be increased in its value by no other means but by increasing the number of productive labourers, or the productive powers of those labourers already employed. The number of labourers cannot be increased without increasing the funds destined for maintaining them. Nor can the productive powers of the same number be increased without some improvements to abridge labour. *In either case an additional capital is almost always required.* If then the annual produce of a country is greater at one period than at a former one, it must be in consequence of an increase of its capital, and that more must have been added to it by the good conduct of some than has been taken from it either by the misconduct of others, or by the extravagance of government. Such will be

<sup>1</sup> The subject of the Law of Bankruptcy and Insolvency is very well treated (from the economical point of view) by Mill, v. 9, 8.

found the present state of England, if compared with what it was at the restoration of Charles II., though within that space of time have happened the fire and the plague of London,—two Dutch wars,—the disorders of the Revolution,—the war in Ireland,—the four expensive French wars of 1688, 1702, 1742, 1756, together with the two rebellions of 1715 and 1745.<sup>1</sup> In the course of these events the nation cannot have contracted less than 200,000,000*l.* of debt. So great a share of the annual produce, has, since the Revolution, been employed in maintaining an extraordinary number of unproductive hands. Had not these wars given this particular direction to so large a capital, the greater part of it would have been employed in maintaining productive hands, the value of the annual produce would have been considerably increased every year; and the real wealth and revenue of the country might by this time *have been raised to a height of which we can have no conception.*<sup>2</sup> But though the profusion of government has retarded the progress of England to improvement, still its annual produce is greater than it was at the Restoration, or at the Revolution. **The capital must likewise be greater;** which, in the midst of all the exactions of government, **has been accumulated by the frugality of individuals.** Hence the impertinence

<sup>1</sup> Rogers has well pointed out that a civil war has a far more destructive influence on the material prosperity of a country than a foreign war, whilst a rapacious or bad government is more injurious than either. See his note on this passage.

For further authorities on the progress of wealth in England, see those quoted in Rogers's note (1), p. 348.

We may add to the enumeration the American war between 1776 and 1782, the French war between 1793 and 1801; and from 1803 to 1815.

<sup>2</sup> It may be questioned whether this astonishing increase in the wealth and revenue of the country would really have taken place in a period of profound peace. Possibly the latter might merely have led to the attainment of the 'stationary state,' owing to the 'tendency of profits to a minimum.' See Mill's *Political Economy*, Book iv. cap. vi., Fawcett, p. 468, and Rogers's note on passage.

and presumption of sumptuary laws. Kings and ministers are the greatest spendthrifts in the society. If their own extravagance does not ruin a state, that of their subjects never will, pp. 346–350.

Some modes of expence seem to contribute more to the growth of public opulence than others. The revenue of an individual may be spent either in things consumed immediately, as in a sumptuous table, in maintaining a great number of servants, horses, &c. Or it may be spent in things more durable, and which may be accumulated, as in buildings, furniture, books, pictures, or in jewels, trinkets, fine clothes, &c. Were two men of equal fortune to spend their revenue, the one chiefly in one way, the other in the other; the magnificence of the person whose expence had been chiefly in durable commodities would be continually increasing, that of the other would be no greater at the end of the period than at the beginning. The former would be the richer of the two. He would have a stock of goods worth something. As one mode of expence is more favourable than the other to the opulence of an individual, so it is likewise to a nation. The houses, the furniture, the clothing of the rich in a little time, become useful to the inferior ranks of the people, pp. 350–352.

The expence, too, which is laid out in durable commodities is favourable to frugality as well as accumulation. If a person should at any time exceed in it, he can easily reform without exposing himself to censure, p. 352.

The expence, besides, that is laid out in durable commodities gives maintenance, commonly, to a greater number of people, than that which is employed in the most profuse hospitality. In the one way, this expence maintains productive, in the other unproductive hands. In the one way, therefore, it increases, in the other, it does not increase the exchangeable value of the produce of the land and labour of the country, p. 352.

## CHAPTER IV.

## Of Stock lent at Interest.

The stock which is lent at interest is considered as a capital by the lender. The borrower may use it either as a capital or as a stock reserved for immediate consumption. If he uses it as a capital, he employs it in the maintenance of productive labourers, and can restore the capital and pay the interest without encroaching upon any other source of revenue, which he cannot do if he uses it as a stock reserved for immediate consumption, p. 353.

Stock lent at interest is occasionally employed in both these ways, but in the former more frequently than in the latter. A man of common prudence will lend a part of his stock to those only who will employ it profitably. Even among borrowers, the number of the frugal and industrious surpass that of the prodigal and idle. Stock is sometimes lent to country gentlemen upon mortgage. What they borrow is commonly spent before they borrow it, pp. 353-354.

Loans at interest are made in money, either of paper or of gold and silver. But what the borrower wants, and what the lender supplies, is not the money, but the goods which it can purchase ; the lender assigns to the borrower his right to a certain portion of the produce of the country to be employed as the borrower pleases. The quantity of stock, or, as it is usually expressed, of money which can be lent at interest in any country is not regulated by the value of the money, but by the value of that part of the annual produce which is destined not only for replacing a capital, but such a capital as the owner does not care to be at the TROUBLE OF

**EMPLOYING HIMSELF.<sup>1</sup>** Such capitals constitute what is called the **MONIED INTEREST**. It is distinct from the landed, and also from the **trading interests**, as in these last the owners themselves employ their own capitals. Even in the monied interest, the **money is but the deed of assignment which conveys from one hand to another those capitals which the owners do not care to employ themselves**. Those capitals may be greater in almost every proportion than the amount of the money which serves as the instrument of their conveyance ; the same pieces of money successively serving for many different loans, as well as for many different purchases, pp. 354-356.

In *proportion* as that share of the annual produce which is destined for replacing a capital increases in any country, the monied interest increases with it. As stock increases, the quantity of stock to be lent at interest grows gradually greater. As the quantity of stock to be lent at interest increases, the interest diminishes. For, as capitals increase in any country, the profits diminish, and it becomes more difficult to find a profitable method of employing any new capital. Hence the competition between different capitals, which sinks the profits of stock.<sup>2</sup> The demand also for productive labour increases by the increase of the funds destined for maintaining it. This raises the wages of labour. But when the profits of a capital are thus diminished, the rate of interest must be diminished with them, pp. 356-357.

Mr. Locke and other writers suppose that the in-

<sup>1</sup> As pointed out by Mill, *Political Economy*, iii. 23, 2, although the whole mass of lent capital takes effect upon the rate of interest, the *fluctuations* in the rate of interest depend almost entirely upon the portion which is in the hands of bankers ; which, being lent for short times only, is continually in the market seeking investment.

<sup>2</sup> Adam Smith's account of the causes which lead to a diminution in the profits of stock is not satisfactory. See Mill's *Political Economy*, iv. 4, 1.

crease of gold and silver, by the discovery of the Spanish mines, was the cause of the lowering the rate of interest throughout Europe. Before the discovery of the Spanish West Indies, 10 per cent. was the common rate of interest. It has since that time sunk to 6, 5, 4, and 3 per cent. Suppose the value of silver has sunk precisely in the same proportion as the rate of interest, and that in countries where interest has been reduced from 10 to 5 per cent. the same quantity of silver can now purchase half the quantity of goods which it could have purchased before : even upon this supposition, it is impossible that the lowering of the value of silver could have the smallest tendency to lower the rate of interest, pp. 357-358.

Whatever causes lowered the value of the capital must have lowered that of interest, and in the same proportion. The proportion between the *value* of the capital and that of the interest must have remained the same, though the *rate* had never been altered. By altering the RATE, the proportion between the two values is necessarily altered. If 100 pounds now are worth no more than 50 were then, 5*l.* can be worth no more than 2*l.* 10*s.* By reducing the rate of interest from 10 to 5 per cent. we give for the use of a capital equal to half its former value, and interest equal to one fourth only of the value of the former interest, p. 358.

Any increase in the quantity of silver could have no other effect than to diminish the value of that metal. The nominal value of goods would be greater, but their real value would be precisely the same, though a greater number of pieces might be requisite for conveying any equal portion of it from one hand to another. The funds for maintaining productive labour being the same, wages, therefore, though nominally greater, would really be the same. The profits of stock, which are not computed by the *number* of pieces of silver with which they are paid, but by the *proportion* which those pieces bear

to the whole capital employed, would be the same both nominally and really. So also would the common interest of money, pp. 358–359.

Any increase in the quantity of commodities annually circulated, while the money remained the same, would produce other effects besides that of raising the value of money. The capital of the country would be augmented. The quantity of productive labour which it could maintain would be increased. Wages would rise, the profits of stock would be diminished, as would the interest of money, which always keeps pace with the profits of stock, p. 359.

In some countries the interest of money is prohibited by law. This regulation, instead of preventing, has increased the evil of usury, the debtor being obliged to pay for the use of money, and for the *risk* which his creditor runs by accepting a compensation for that use. In other countries the law fixes the highest rate which can be taken without incurring a penalty. *This rate ought always to be somewhat above the lowest market price.* If this legal rate be fixed below the lowest market rate, it will be the same as a prohibition of interest, if at the lowest market rate it will grievously injure the credit of all those who are unable to give the very best security, pp. 359–360.

The legal rate ought not to be much above the lowest market rate. If the legal rate of interest in Great Britain was fixed at 8 or 10 per cent. the greater part of the money lent would be lent to prodigals and projectors, who alone would be willing to give this high interest.<sup>1</sup> No law can reduce the common rate of in-

<sup>1</sup> The Usury Laws have now been abolished in the United Kingdom. The most complete exposure of their absurdity is to be found in Jeremy Bentham's *Defence of Usury*. It ought to be mentioned, to Adam Smith's credit, that he was completely converted by this treatise, and acknowledged that the doctrine laid down in the *Wealth of Nations* (as to the advisability of fixing a maximum rate of interest) was erroneous. As to the 'prodigals and projectors,' see Mill's *Political Economy*, v. 10, 2.

terest below the lowest ordinary market rate at the time when the law is made, pp. 360-361.

The ordinary market price of land depends upon the ordinary market rate of interest. The superior security of land disposes a man to be content with a smaller revenue from land than what he might have by lending out his money at interest. When interest was at 10 per cent., land was commonly sold for 10 or 12 years' purchase. As interest sunk to 6 and 4 per cent. the price of land rose to 20 and 30 years' purchase,<sup>1</sup> pp. 361-362.

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## CHAPTER V.

### Of the different employment of Capitals.

#### A CAPITAL MAY BE EMPLOYED FOUR DIFFERENT WAYS<sup>2</sup>

(1.) In procuring the rude produce annually required for the use and consumption of the society;

<sup>1</sup> No doubt the ordinary market price of land is affected by the same causes (acting in an opposite direction) as those which affect the ordinary market rate of interest. Fawcett, p. 456.

The price of land in England is also affected favourably by the social influence conferred by its possession, and adversely by the great expense attending all dealings with it. Generally, the former influence is the more powerful. See Rogers's note on this passage.

The long war at the beginning of the present century furnished an apparent exception to this rule—the price of land, as well as the rate of interest, being then remarkably high. For this, however, there was a special cause, the continuance of a very high average price of corn during many years having raised the rent of land even more than in proportion to the rise of interest, and fall of the selling price of fixed incomes. See Mill, iii. 23, 5.

<sup>2</sup> The subject of this chapter involves the important doctrine of the 'Labour Fund,' a doctrine zealously inculcated by the old school of political economists, apparently sanctioned by Mill, i. 4, and by Fawcett, cap. iv. It has been vigorously assailed by Thornton in his treatise *On Labour*, which had the glory of effecting Mill's conversion. (*Fortnightly Review*, May 1, 1869.) Cairnes, in his work on the *Leading Principles of Political Economy*, lends some support to the older view. See page 184. See also Fawcett, in *Fortnightly Review*, January 1874, and Rogers's elaborate note on this passage.

Or (2.) In preparing that rude produce for consumption;

Or (3.) In transporting rude or manufactured produce from places where they abound, to those where they are wanted;

Or (4.) In dividing particular portions of either into such small parcels as suit the demands of those who want them.

Each of these four methods of employing a capital is necessary to the existence or extension of the other three, or to the general convenience of the society. The capital employed in furnishing rude produce is necessary to trade and manufacturers: that employed in manufacturing the rude produce is necessary to supply the demand. Unless a capital was employed in transporting either rude or manufactured produce from one place to another, no more could be produced than was necessary for the consumption of the neighbourhood. Unless a capital was employed in dividing certain portions of the produce into small parcels, every man would be obliged to purchase a greater quantity of goods than he wanted,<sup>1</sup> pp. 362-365.

The persons whose capitals are employed in any of these four ways are productive labourers. Their labour realizes itself in the vendible commodity on which it is bestowed, and adds to its price the value, at least, of their own maintenance and consumption. Equal capitals, employed in each of these four different ways, will put in motion different quantities of productive labour. The capital of the *retailer* replaces, with its profits, that of the merchant. The capital of the *merchant* replaces, with their profits, the capitals of the farmers and manufacturers. His capital, too, employs sailors and carriers. Part of the capital of the master manufacturer is employed at a fixed capital in the instru-

<sup>1</sup> Rogers proposes to place the outlay involved in the production of skilled labour under a fifth head. See his note.

ments of his trade, and replaces with its profits, that of the artificer who makes them: part of his circulating capital purchases materials of the farmer; but the greatest part is distributed among workmen, pp. 366–367.

No equal capital puts into motion a greater quantity of productive labour than that of the *Farmer*.<sup>1</sup> His cattle and servants are productive labourers; NATURE also labours along with man, at no expence, but its produce has its value.<sup>2</sup> The operations of agriculture seem intended to *direct*, rather than increase, the fertility of nature. Over and above the capital of the farmer and its profits, there is the reproduction of the rent to the landlord, which sometimes is a *third* of the whole produce. No equal quantity of productive labour employed in manufactures can occasion so great a reproduction. Hence a capital employed in agriculture is most advantageous to society, pp. 367–368.

The capitals employed in agriculture and the retail trade must reside within the society; that of the merchant has no fixed residence. The capital of the manufacturer must reside where the manufacture is carried on, but this may be at a great distance from the place where the materials grow, or the manufactures are consumed. Part of the wool of Spain is manufactured in Great Britain, and the cloth sent back to Spain. Whether the merchant, whose capital exports the surplus produce of any society, be a native or foreigner, is of no other importance, than the difference of the value of the annual produce of that one man. It is of more consequence that the capital of the manufacturer should reside within the country, as it puts a

<sup>1</sup> If Adam Smith here speaks of value he is correct, if of riches he is mistaken. See Ricardo's *Political Economy*, cap. xxxii. *ad fin.*

<sup>2</sup> The opinion of Adam Smith, as to the different position with reference to natural forces occupied by the farmer and the manufacturer, cannot be maintained. See Rogers's note.

greater quantity of productive labour into motion, pp. 369–370.

A country, like an individual, may frequently not have sufficient capital to cultivate its lands, and manufacture its rude produce ; and to transport the surplus part either of the rude or manufactured produce to distant markets. In this situation of things, agriculture is to be preferred, and then manufactures, p. 370.

The country which has not capital sufficient for all those three purposes has not arrived to that degree of opulence for which it seems naturally destined. To attempt, however, with an insufficient capital, to do all three, *is not the shortest way to acquire a sufficient one.*<sup>1</sup> The capital of all the individuals of a nation, is increased by adding to it what they save out of their revenue : it will increase the fastest when it is employed in the way which affords the greatest revenue, which is in proportion to the annual produce of their land and labour, pp. 370–371.

By agriculture, America has made rapid progress towards wealth and greatness. The course of human prosperity seems scarce ever to have been of so long continuance as to enable any great country to acquire capital sufficient for all three purposes. Thus the capital of any country will put into motion a quantity of productive labour, in proportion as it is employed in agriculture, manufacture, and wholesale trade. The difference is also very great according to the different sort of wholesale trade in which any part of it is employed, pp. 371–372.

All wholesale trade may be reduced to

(1.) The HOME TRADE, which is employed in purchasing in one part of the same country, and selling in another.

<sup>1</sup> Hence (we may infer) the absurdity of the so-called system of Protection.

(2.) The FOREIGN TRADE OF CONSUMPTION, which is employed in purchasing foreign goods for home consumption.

(3.) The CARRYING TRADE, which is employed in transacting the commerce of foreign countries, p. 372.

The capital employed in the *first* generally replaces two distinct capitals employed in supporting productive labour. The capital which sends Scotch manufactures to London brings back English corn and English manufactures, p. 373.

The capitals employed in the *second* likewise replace two capitals, but one only of them is employed in supporting domestic industry: consequently, the capital employed in it, can give *at most*, but one half the encouragement to the industry of the country as that employed in home trade. Foreign goods for home consumption may be purchased with other foreign goods; these last, however, must have been purchased with the produce of domestic industry; the effects, therefore, of a capital employed in such a roundabout foreign trade, are the same as those of one employed in the most direct trade, except that the final returns are more distant. Whatever be the foreign commodity with which the foreign goods for home consumption are purchased, it can occasion no *essential difference* either in the nature of the trade, or in the support it can give to the productive labour of the country from which it is carried on. If they are purchased with gold and silver, these must have been first purchased with the produce of the industry of the country. Owing to the small bulk, and the great value of the precious metals, they may have the advantage over other commodities, in a roundabout foreign trade, pp. 373-375.

That part of the capital which is employed in the carrying trade of any country is withdrawn from supporting the productive labour of that country, to support

that of foreign countries. Though it may replace by every operation two distinct capitals, yet *neither* belongs to that particular country. If this trade is carried on by ships and sailors of that particular country, part of the capital puts in motion a certain number of productive labourers of that country ; this is generally the case, but not necessarily so.<sup>1</sup> The carrying trade is supposed to be highly advantageous to Great Britain, though the same capital might be employed in the foreign trade of consumption, or even in the coasting trade. The number of sailors and ships *do not depend* on the nature of the trade. The trade from Newcastle to London employs more shipping than all the *carrying trade* of England, pp. 376–377.

The capital, therefore, employed in the home trade gives greater encouragement to domestic industry than that employed in the foreign trade of consumption ;<sup>1</sup> and the capital employed in this latter trade has a still greater advantage over an equal capital employed in the carrying trade. Each, however, is not only advantageous, but necessary. Without exportation a part of the productive labour of the country must cease, and the value of its annual produce diminish. In Great Britain more corn, woollens, and hardware are produced than the demand requires. The surplus part must be sent abroad and exchanged for something for which there is a demand at home. If the foreign goods thus purchased exceed the demand of the home market, the surplus must be sent abroad again, and exchanged for something more in demand at home. Thus the foreign roundabout trade may be as necessary as the most direct, pp. 377–378.

When the capital stock of any country is increased to such a degree that it cannot be all employed in supplying the consumption, and supporting the productive:

<sup>1</sup> See Ricardo's *Political Economy*, cap. xxvi.

labour of that country, the surplus part disgorges itself into the carrying trade. The carrying trade is the EFFECT of national wealth, and not the natural cause of it. Holland, the richest country in Europe, has the greatest share of the carrying trade,<sup>1</sup> pp. 378-379.

The extent of the home trade and of the capital employed in it is limited by the value of the surplus produce of all those distant places within the country which exchange their respective productions with one another. That of the foreign trade of consumption, by the value of the surplus produce of the whole country, and of what can be purchased with it; that of the carrying trade, by the value of the surplus produce of all the different countries in the world. *Private profits, and not public good,* determine the owner of a capital to employ it either in agriculture, or in manufactures. THEREFORE, WHERE AGRICULTURE IS THE MOST PROFITABLE OF EMPLOYMENTS, THE CAPITALS OF INDIVIDUALS WILL BE EMPLOYED IN THE MANNER MOST ADVANTAGEOUS TO SOCIETY,<sup>2</sup> pp. 379-380.

<sup>1</sup> Venice, for a time, held possession of the carrying trade owing to the absence of competition, and Holland, owing to her low rate of profit. See Mill, iii. 25, 5 *ad fin.*

The case of Sweden, pointed out by Rogers in his note, is singular.

<sup>2</sup> Adam Smith was of opinion that no great fortune had ever been acquired in Europe during the 18th century by means of agriculture. This is probably true as respects the farmers, but the landlords might have told a different tale.



## APPENDIX.

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### SYNOPSIS OF BOOKS I. AND II. OF THE WEALTH OF NATIONS.

By GENERAL GARNIER.

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THE whole doctrine of Adam Smith upon the origin, multiplication, and distribution of wealth, is contained in his two first books, whilst the three others no doubt confirm and develope his opinions, but do not by any means add to them.

The third book is an historical and political discussion on the progress which wealth would make in a country where labour and industry were left free; and upon the different causes which have tended, in all the countries of Europe, to reverse this progress.

In the fourth book, the author has endeavoured to combat the various systems of political economy which were popular previous to his time; and, in a particular manner, that which is denominated the mercantile system, which has exercised so strong an influence over the financial regulations of the European governments, and particularly over those of England.

In the fifth and last book, he considers the expences of government; the most equitable and convenient modes of providing for these expences; and, lastly, public debts, and the influence they have over the national prosperity.

The three last books may be read and studied in the same order and arrangement in which they were written, without any difficulty, by one who is completely master of the general doctrine contained in the two first.

I regard, then, the two first books, as a complete work, which I would divide into *three* parts.

The 1st part relates to values in particular. It contains their definition; the laws which regulate them; the analysis of the elements which constitute a value, or enter into its composition; and the relations which values of different origin bear to each other.

The 2nd part treats of the general mass of national wealth, which is here divided into separate classes, according to its destination or employment.

The 3rd and *last* part explains the manner in which the growth and distribution of national wealth takes place.

#### PART FIRST.

##### Of Values in particular.

THE essential quality which constitutes WEALTH, and without which it would not be entitled to the name, is its EXCHANGEABLE VALUE.

Exchangeable value differs from the value of utility—*book 1, end. of ch. iv.*

The *relation* existing between two exchangeable values, when expressed by a value generally agreed upon, is denominated PRICE.

The value generally agreed on among civilized nations, is that of metals. Motives to this preference. Origin of money—*book 1, ch. iv.* Relation between money and the metal in the state of bullion—*book 1, ch. v.*

THE price in money, or nominal price of a thing, differs from its REAL price, which is its valuation by the quantity of labour expended upon it, or which it represents—*ibid.*

LAWS, according to which the price of wealth is NATURALLY fixed; and those ACCIDENTAL CIRCUMSTANCES which occasion the actual to differ from the natural price, and which gave rise to a distinction between the natural and the market price—*book 1, ch. vii.*

The price of a thing, in most cases, consists of three distinct elements—the WAGES of the labour, the PROFIT of

the master who directs the labour, and the RENT of the ground that furnishes the materials on which it is erected. There are, however, some descriptions of merchandise in which the rent *forms no part* of the price ; and others, in which the profit *forms no part* of it; but none, in which it is not formed principally by the wages—*book 1, ch. vi.*

**OF WAGES.** Laws, according to which the natural rate of wages is fixed : accidental circumstances which cause them to vary, during a short period, from that natural rate—*book 1, ch. viii.*

**Of the PROFIT of capitals.** Laws, by which the natural rate of profit is fixed : accidental circumstances which, for a long while, increase or diminish it beyond that rate—*book 1, ch. ix.*

Labour and Capitals tend naturally to diffuse themselves through every species of employment; and, as certain employments are, by their nature, accompanied with inconveniences and difficulties which do not occur in others ; while these, on the contrary, offer some real or imaginary advantages which are peculiar to themselves ; wages and profits should rise and fall in proportion to these advantages and disadvantages ; thus forming a complete equilibrium between the various kinds of employment. The arbitrary and oppressive policy of Europe, in many instances, opposes the establishment of this equilibrium, which is conformable to the order of nature—*book 1, ch. x.*

**Of the RENT of the ground.** The nature of rent : the manner in which it enters into the price of wealth ; and according to what principles it in some cases forms an integral part of that price, while in others it does not—*book 1, ch. xi.*

Division of the RUDE PRODUCE of the earth into two great classes :

1. That produce which is always necessarily disposed of in such a way as to bring a rent to the landed proprietor.

2. That which, according to circumstances, may be disposed of so as to bring, or so as not to bring a rent.

The produce of the first description is derived from the ground appropriated to furnishing subsistence for man, or for those animals which he uses as food. The value of the produce of the ground cultivated for the support of man, *determines the value of the produce* of all other ground proper for this species of culture. This general rule allows of *some exceptions*. Causes of these exceptions.

The produce of the second class consists of the materials of clothing, lodging, fuel, and the ornaments of dress and furniture. The value of this species of produce depends on that of the first description. Some circumstances render it possible that the produce of the second kind may be disposed of in such a way as to furnish a rent to the landed proprietor. Principles which regulate the proportion of the price of these products, which is formed by the rent—*book 1, ch. xi.*

**RELATION** between the respective values of the produce of the first class, and those of the produce of the second. Variations which may take place in this relation, and the causes of such variations—*ibid.*

Relation existing between the values of the two descriptions of rude produce above mentioned, and the values of the produce of manufacture. Variations which may occur in this relation—*ibid.*

Certain kinds of rude produce, procured from very different sources, are, however, intended for the same kind of consumption; and hence it happens, that the value of one determines and limits that of another—*ibid.*

The relations between values of different natures vary according to the state of society. This state is **IMPROVING**, **DECLINING**, or **STATIONARY**; that is to say, society is either increasing in wealth, or falling into poverty, or remaining in the same unchanged state of opulence.

#### OF THE EFFECTS OF THESE DIFFERENT STATES OF SOCIETY,

Upon the price of wages—*book 1, ch. viii.*

Upon the rate of profit—*book 1, ch. ix.*

Upon the value of the rude produce of the earth, and on that of the produce of manufacture—*book 1, ch. xi.*

**DIFFERENCE**, in this respect, between the various kinds of rude produce, viz.:

1. Those which the industry of man cannot multiply;
2. Those which his industry can always multiply in proportion to the demand;
3. Those over which human exertions have only an uncertain or limited influence—*ibid.*

#### *PART SECOND.*

##### *Of Stock and its Employment.*

**WEALTH ACCUMULATED IN THE POSSESSION OF AN INDIVIDUAL** is of two descriptions, according to its destination or employment:

1. That reserved for immediate consumption;
2. That employed as capital, for the production of a revenue—*book 2, ch. i.*

**CAPITAL** is also of two kinds:

1. Fixed capital, which produces a revenue, and still remains in the same hands.
2. Circulating capital, which yields no revenue unless it be employed in trade—*book 2, ch. i.*

The **WHOLE ACCUMULATED WEALTH** of any COMMUNITY may be divided into these three parts:

1. The fund appropriated to the immediate consumption of the proprietors of wealth.
2. The fixed capital of the community.
3. Its circulating capital.

The **FIXED CAPITAL** of the SOCIETY consists,

1. Of all machines and instruments of labour;
2. Of all buildings and edifices erected for the purposes of industry;
3. Of every kind of agricultural improvement which can tend to render the soil more productive;

4. Of the talents and skill certain members of the community have acquired by time and expense.

The CIRCULATING CAPITAL of a COMMUNITY consists,

1. In the money in circulation;
2. In the stock of provisions in the hands both of the producers and of the merchants, and from the sale of which they expect to derive a profit;
3. In the materials of lodging, clothing, dress, and ornament, more or less manufactured, which are in the hands of those who are employed in rendering them fit for use and consumption;
4. In the goods more completely fit for consumption, and preserved in warehouses and shops, by merchants who propose to sell them with a profit—*book 2, ch. i.*

Of the relation existing between the employment of these two kinds of capital—*ibid.*

Of the mode in which the capital withdrawn from circulation is disposed of—*ibid.*

The sources which continually renew the circulating capital, as soon as it enters into the fixed capital, or the stock for immediate consumption, are,

1. Lands;
2. Mines and quarries;
3. Fisheries—*ibid.*

Of the purposes accomplished by circulating coin—*book 2, ch. ii.*; and the expedients which may be resorted to, in order to attain these with less expense and fewer of those inconveniences to which money is subjected—*ibid.*

Of the stock lent at interest; and of those things which regulate the proportion that this kind of stock bears to the whole existing stock of the community. The quantity of stock which may be lent depends in no degree upon the quantity of money in circulation—*book 2, ch. iv.*

Of the principles which determine the rate of interest—*ibid.*

There exists a necessary relation between this and the price of land—*ibid.*

**PART THIRD.**

**Of the manner in which the Multiplication and Distribution of Wealth takes place.**

**WEALTH UNIFORMLY INCREASES IN PROPORTION TO THE AUGMENTATION WHICH THE POWER PRODUCING IT RECEIVES, WHETHER THAT BE IN ENERGY OR IN EXTENT**—book 1, *introduction*.

**LABOUR, WHICH IN THIS POWER INCREASES IN ENERGY,**

1. By the division of the parts of the same work;
2. By the invention of such machines as a bridge and facilitate labour—book 1, ch. i.

**THE DIVISION OF LABOUR ADDS TO ITS ENERGY,**

1. By the skill which the workman in this way acquires;
2. By the saving of time—*ibid.*

The invention of machines is itself an effect of the division of labour—*ibid.*

The natural disposition of mankind to exchange with each other the different productions of their respective labours and talents, is the principle which has given birth to the division of labour—book 1, ch. ii.

The division of labour must be limited by the extent of the market; therefore, whatever tends to widen the market facilitates the progress of a nation towards opulence—book 1, ch. iii.

**LABOUR GAINS IN EXTENT,**

1. In proportion to the accumulation of capitals;
2. In proportion to the manner in which these are employed—book 1, *introduction*.

The accumulation of capitals is hastened by the increase of the proportion existing between the productive and unproductive consumers—book 2, ch. iii.

The proportion between these two classes of consumers is determined by the proportion existing between *that part*

of the annual produce destined to the replacement of capital, and that destined for the purpose of revenue—*ibid.*

The proportion between that part of the annual produce which goes to form capital, and that which goes to form revenue, is great in a rich country, and small in a poor one—*ibid.*

In a wealthy country, the rent of land, TAKEN ABSOLUTELY, is much greater than in a poor country; but, TAKEN IN RELATION TO THE CAPITAL EMPLOYED, it is much less—book 2, ch. iii.

In a wealthy country, the WHOLE profits of its capital are infinitely greater than one that is poor; although a given quantity of capital will, in a country of the latter description, produce profits much greater than in an opulent one—*ibid.*

It is industry that furnishes the produce; but it is economy that places in the capital that part of it which would otherwise have become revenue—*ibid.*

The economy of individuals arises from a principle which is universally diffused, and one that is continually in action; the desire of ameliorating their condition. This principle supports the existence and increase of national wealth, in spite of the prodigality of some individuals; and even triumphs over the profusion and errors of governments—*ibid.*

Of the different modes of spending money, some are more favourable than others to the increase of national wealth—*ibid.*

Those branches of employment which require a capital never fail to call forth more or less labour; and thus contribute, in a greater or less degree, to increase the extent of national labour.

#### CAPITAL CAN BE EMPLOYED ONLY IN FOUR WAYS:

1. In cultivating and improving the earth, or, in other words, multiplying its rude produce;
2. In supporting manufactures;

3. In buying by the gross, to sell in the same manner;

4. In buying by the gross, to sell by retail.

These four modes of employing capital are equally necessary to, and serve mutually to support, each other. The first supports, beyond all comparison, the greatest number of productive hands; the second occupies more than the two remaining; and the fourth, the fewest of any.

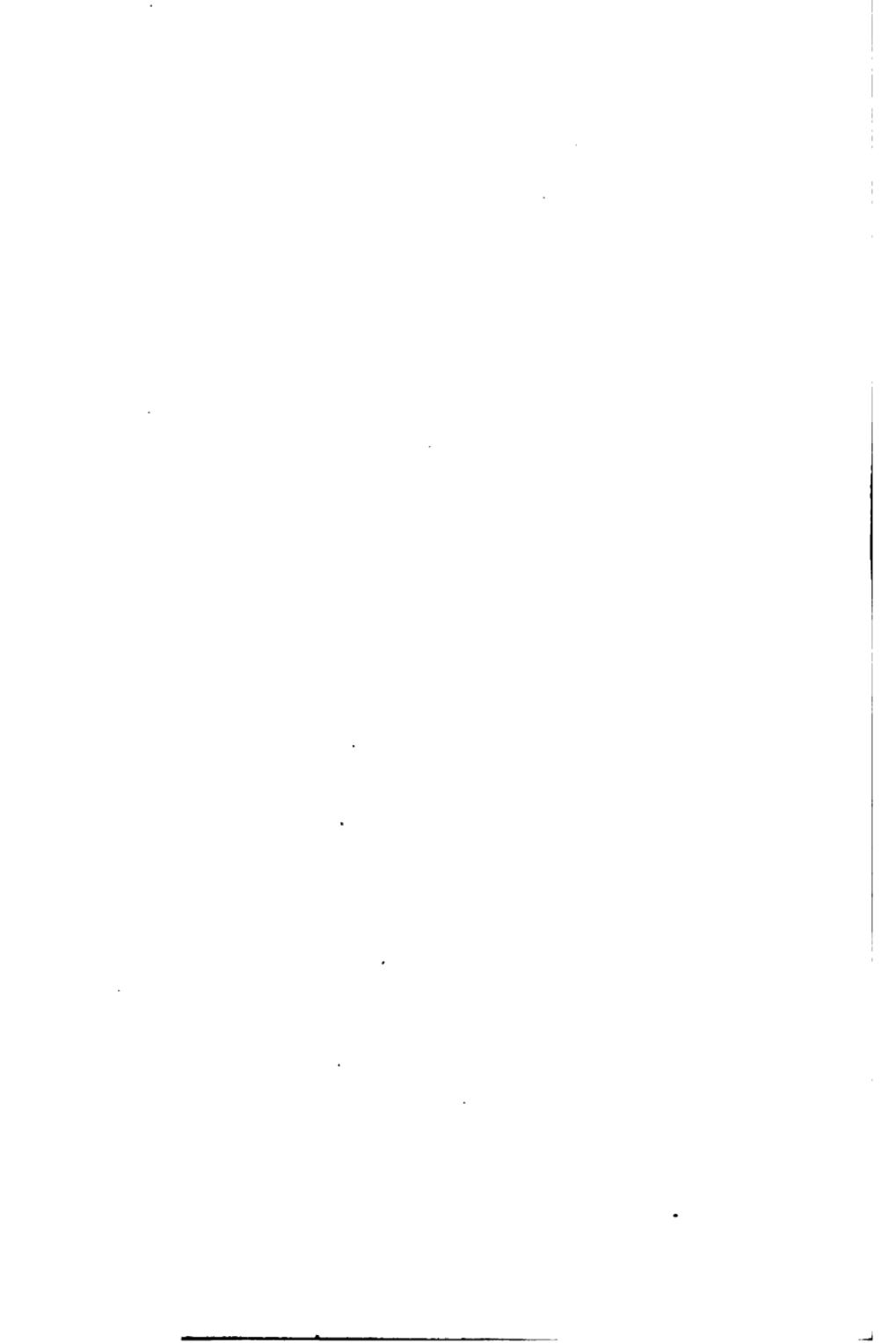
According to the third mode, capital may be employed in three different ways; each contributing in a very different degree to the support and encouragement of national industry.

When capital is employed in exchanging one description of the produce of national industry for another, it then supports as great a portion of industry as can be done by any capital employed in commerce.

When capital is employed in exchanging the produce of national for that of foreign industry, for the purposes of home consumption, half of it goes to the support of foreign industry; by which means, it is only of half that service to the industry of the nation which it would have been had it been employed another way.

Lastly, When capital is employed in exchanging one description of the produce of foreign industry for another, or in what is termed the carrying trade, it then serves wholly for the support and encouragement of the industry of the two foreign nations, and adds only to the annual produce of the country the profits of the merchant—*book 2, ch. v.*

Self-interest, when left uncontrolled, will necessarily lead the proprietors of capitals to prefer that species of employment which is most favourable to national industry, because it is, at the same time, most profitable for themselves—*ibid.* For, when capitals have been employed in a way different from that suggested by the infallible instinct of self-interest, it has always been in consequence of the peculiar circumstances of the European governments, and of that influence which the vulgar prejudices of merchants have had over the system of administration which these governments have adopted.



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\* n signifies Note.

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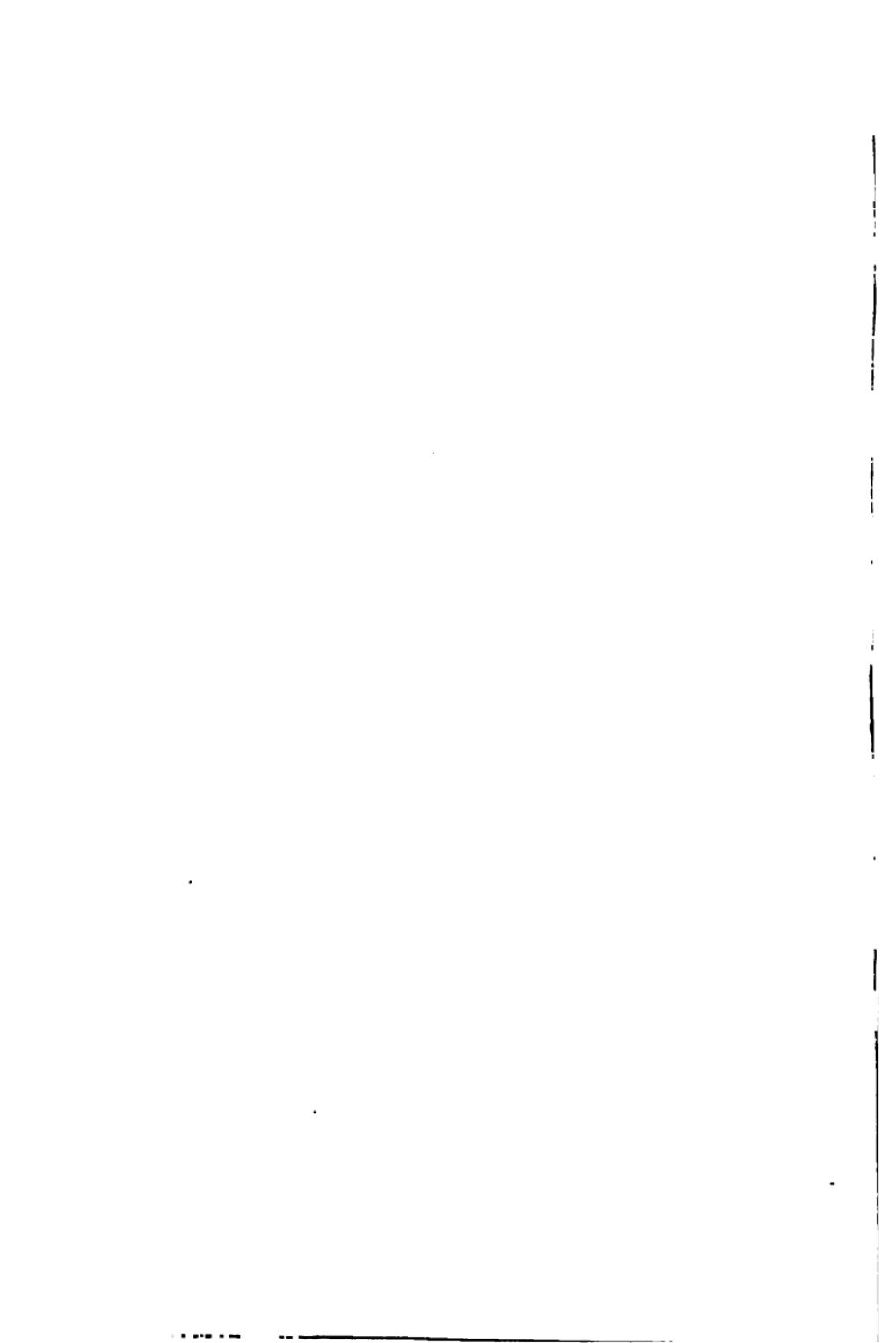
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*July 2, 1877.*

(For Specimen see page 9.)

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## XVI.

FREE GOVERNMENT.—ARBITRARY GOVERNMENT.—TYRANNY.—  
DESPOTISM.—ANARCHY.

A FREE government is not a government in which liberty prevails, or in which there is an absence of inconvenient restraints and oppression on the part of the sovereign power; but a government in which there is a plurality of rulers, and fixed laws respected by the administrative authority.\* A free government is thus opposed to an arbitrary or despotic government, such as the Roman, French, or Austrian empires. In this sense, Hume<sup>1</sup> opposes free states to absolute monarchies, and Rousseau speaks of ‘the difference between *free* and *monarchical* states;’<sup>2</sup> i.e. between states where the sovereignty belongs

<sup>1</sup> ‘The provinces of absolute monarchies are always better treated than those of free states.’ Part i. Essay 3.

<sup>2</sup> *Contrat Social*, liv. iii. ch. 8. According to Sir James Mackintosh, ‘as general security is enjoyed in very different degrees under different governments, those which guard it most perfectly, are by way of eminence called *free*. Such governments attain most completely the end which is common to all governments. A free constitution of government, and a good constitution of government, are therefore different expressions for the same idea.’ *On the Law of Nature and Nations*, p. 60. However, one who thought with Hobbes that absolute monarchy is the best form of government, would probably not call *that* a free constitution. On the difference between free and despotic governments, see likewise Bentham’s *Fragment on Government*, p. 113.\*

\* *Fixed laws respected by the administrative authority.* This condition is not recognised by Austin. Sir James FitzJames Stephen (*Liberty, Equality, and Fraternity*, p. 171), goes so far as to declare that ‘democracy has, as such, no definite or assignable relation to liberty;’ but this can hardly be admitted, for the reason given by Mr. James Mill in the passage quoted above (p. 100), which is almost conclusive for this purpose, though justly criticised by Sir G.

C. Lewis on other grounds. An absolute despot will naturally put down whatever displeases him; a more numerous body are pretty sure to present variety in their likes and dislikes, so that the practices which they will agree to suppress or enforce, will, *ceteris paribus*, be comparatively few. It is true on the other side that the despot may be indifferent to practices very hateful to the majority, but which do not touch him personally.—W.

\* And Austin’s 6th Lecture (*Student’s Austin*, p. 112). He says: ‘They who distin-

'e cetero senatu'—to remedy the existing anomalies in the law; and this commission was 'modicum in præsens levamentum.'

**29.**

Honours of  
Nero, son of  
Germanicus.

Nero, one of the sons of Germanicus, now entering on manhood, was commended to the Senate by Tiberius; who obtained for him relief from the vigintiviratus,<sup>1</sup> and that he should be a candidate for the prætorship five years before the legal period: 'non sine irrisu audientium.' 'Additur Pontificatus.' He was soon after married to Julia, daughter of Drusus, an event which gave as much joy as the engagement of Sejanus' daughter to the son of Claudius did displeasure.

**30.**

Volusius.

L. Volusius and C. Sallustius Crispus died at the end of the year. The first, of an old family, but never hitherto 'præturam egressa,' had lent honour to it by having been Consul and one of the Triumvirate 'legendis equitum decuriis.'<sup>2</sup> The second, a grand-nephew of the historian, by whom he had been adopted, was of an equestrian family; and though well able to have attained the highest honours, had preferred to imitate Mæcenas, and 'sine dignitate Senatoriâ multos triumphalium consulariumque potentia anteire.' He was a man of great ability, and after the death of Mæcenas was 'præcipiuus cui secreta imperatorum inniterentur,'—e.g. he was 'interficiendi Postumi Agrippæ conscius.'

**A.D. 21.**

Corbulo and  
Sulla.

Tiberius IV. Drusus II. Consuls. 'patrisque atque filii collegio annus insignis.' Tiberius retreated to Campania.<sup>3</sup> Drusus found an opportunity of gaining popularity by composing the quarrel between Domitius Corbulo, 'præturâ

<sup>1</sup> The Vigintiviratus was a kind of Police-board, which had charge of the mint, of the mending of streets, of crimes ending in mortal violence, &c.

<sup>2</sup> This power, 'recognoscendi turmas equitum,' was transferred by Augustus to a 'Triumviratus.'

<sup>3</sup> Tacitus says—'Longam et continuam absentiam paulatim meditans, sive ut amoto patre Drusus munia consulatūs solus impleret.'

and the other less, erroneous : and, therefore, since to hit exactly on the mean is difficult, one must take the least of the evils as the safest plan ;<sup>1</sup> and this a man will be doing if he follows this method.

We ought also to take into consideration our own natural bias ; which varies in each man's case and will be ascertained from the pleasure and pain arising in us. Furthermore, we should force ourselves off in the contrary direction, because we shall find ourselves in the mean after we have removed ourselves far from the wrong side, exactly as men do in straightening bent timber.<sup>2</sup>

But in all cases we must guard most carefully against what is pleasant, and pleasure itself because we are not impartial judges of it.

We ought to feel in fact towards pleasure as did the old counsellors towards Helen, and in all cases pronounce a similar sentence : for so by sending it away from us we shall err the less.<sup>3</sup>

Well, to speak very briefly, these are the precautions by adopting which we shall be best able to attain the mean.

<sup>1</sup> ‘Δεύτερος πλοῦς is a proverb,’ says the Scholiast on the Phædo, ‘used of those who do any thing safely and cautiously, inasmuch as they who have miscarried in their first voyage, set about their preparations for the second cautiously ;’ and he then alludes to this passage.

<sup>2</sup> That is, you must allow for the *recoil*.

‘Naturam expellas furca tamen usque recurret.’

\* This illustration sets in so clear a light the doctrines entertained respectively by Aristotle, Eudoxus, and the Stoicks, regarding pleasure, that it is worth while to go into it fully.

The reference is to Iliad iii. 154-160. The old counsellors, as Helen comes upon the city wall, acknowledge her surpassing beauty, and have no difficulty in understanding how both nations should have incurred such suffering for her sake : still, fair as she is, home she must go that she bring not ruin on themselves and their posterity.

This exactly represents Aristotle's relation to Pleasure : he does not, with Eudoxus and his followers, exalt it into the Summum Bonum (as Paris would risk all for Helen), nor does he with the Stoicks call it wholly evil (as Hector might have said that the woes Helen had caused had ‘banished all the beauty from her cheek’), but, with the aged counsellors, admits its charms, but aware of their dangerousness resolves to deny himself ; he ‘Feels her sweetness, yet defies her thrall.’

Natural bias to be taken into account.

And especially the universal bias towards pleasure.

4. Write out in full :—

Imper. mood of <i>fero</i> .	Imper. mood of εἰμι.
Imperf. subj. of <i>patior</i> .	Pres. opt. pass. of σιγάω.
Perf. indic. of <i>absum</i> .	1st aor. imper. mid. of σημαίω.
Fut. perf. of <i>proficiscor</i> .	Fut. ind. act. of μένω.
Pres. subj. of <i>dignor</i> .	Paulo-post fut. of λέγω.

5. Give instances in both Greek and Latin of *Demonstrative*, *Interrogative*, *Possessive*, and *Reflexive Pronouns*; and give the meaning of *quidam*, *quisquam*, *quisquis*, *quisque*, *quis*; and of *πόσος*, *ποῖος*, *πότερος*, *τόσος*, *οἷος*, *ὅστις*.

6. Illustrate by examples the cases governed by *dono*, *gaudeo*, *credo*, *doceo*, *obliviscor*,—τυγχάνω, ἔπομαι, ποιεῖν, ἀκούω, ἔχω.

7. What is meant by *ablative absolute*, *apposition*, *attraction*, *contraction*, *cognate accusative*?

8. Illustrate by examples the meaning of, and cases governed by, *ante*, *circa*, *ab*, *super*, *prae*,—ἐπί, ἀντί, μετά, ἀπό, *πρός*.

9. Distinguish—

si velit, si vellet.	οἱ αὐτὸς ἀνήρ, αὐτὸς οἱ ἀνήρ..
ejus caput, suum caput.	ἄλλα, ἄλλά.
metuit te, metuit tibi.	ἥ, ἥ, ὧν ὧ.
nobis interest, nostrā interest.	ἴστησε, ἴστηκε.
amatum iri, amandum esse.	ἴνα βλέψεις, οἵα βλέψης.

10. Translate into Latin :—

- (a) He said he would come whenever he was wanted.
- (b) He said, I will come whenever I am wanted.
- (c) He sold the house for as much as he expected.
- (d) He exhorted his soldiers not to lose the opportunity of freeing their country.

- (e) The first Consuls were elected at Rome in the two hundred and forty-fifth year after the building of the city.

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*Examination Papers*

4. 'The principal cause of phonetic degeneracy in language is when people shrink from the effort of articulating each consonant and vowel.'

Are there any phenomena of phonetic change which cannot be fully explained in this way?

5. Apply the principles of comparative philology to an examination of the following words:—*ἄρκτος*, *βάρος*, *γίγνομαι*, *δαήρ*, *δέσποινα*, *εἰμί*, *ἡλιος*, *ἡπαρ*, *ἴππος*, *μοῖρα*, *δύτεον*, *πίπτω*, *ποῖος*, *ὑθρις*, *ὑπνος*.

6. Trace the decay of the Latin diphthongs.

7. Explain the various ways in which the perfect tense is formed in Latin. Illustrate from Greek.

8. By what arguments has the existence of the digamma been established? In what authors are traces of its use to be found?

## No. XIII.

1. What is the locative case?

2. Analyse the forms *amaverimus*, *lapidum*, *alicubi*.

3. Explain the formation of *calumnia*, *convicium*, *drachuma*, *facilumed*, *sepulcrum*, *stolidus*, *Vertumnus*, *auctumnus*.

4. Give some account of the formation of adverbs.

5. Explain, with instances, Anacoluthon, Zeugma, Pleonasm, Irony.

6. Translate the following sentences, so as to show the meanings of the middle voice:—

(1) *πᾶν σοι φράσω τάληθὲς οὐδὲ κρίνθομαι.*

(2) *καὶ ὁ μὲν ἐδίκαζε, ἡμεῖς δὲ ἐδίκαζόμεθα· καὶ ὁ μὲν ἐπεψήφιζε, ἡμεῖς δὲ ἐψηφιζόμεθα· καὶ ὁ μὲν ἔλεξε ἡμεῖς δὲ διελεγόμεθα.*

*Arithmetical.*

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4. A bankrupt pays 5s. 9d. in the pound ; if his assets were 500*l.* more, he would pay 6s. 5d. : what are his assets and his debts ?

5. Find the present worth of 122*l.* 16s. due 7 months hence at 4 per cent.

6. Potatoes are bought at 10*½d.* the stone, and have to pay a duty of 1*l.* the ton ; if they are sold at 1*½d.* the lb., what is the profit per cent. ?

7. Find the compound interest on 5000*l.* for 4 years at 5 per cent.

8. Find the value of 3840 articles at 19s. 11*¾d.* each. Three purchasers divide them in the proportion of 3, 4, 5 : what will each pay ?

9. Extract the square root of 196, 3*½*—1*¾.*

10. I sell out 12500*l.* from the Three per Cents. at 96 ; I invest one-third of the proceeds in Egyptian Six per Cent. Bonds at 125, and the remainder in land which yields 2*½* per cent. net. What is my difference in income ?

11. What quantity of Turkey carpet is required for a room 20 feet 4 inches long, and 18 feet 8 inches broad, allowing a margin of 2 feet 8 inches all round ? Find also the number of tiles each 8 inches by 4 which will be needed to fill this margin.

## XXVII.

1. Find by Practice the cost of 4 cwt. 2 qrs. 12 lbs. at 4*l.* 13s. 4d. per quarter.

2. Reduce  $\frac{3}{7}$  of 1*d.* to the fraction of 17s. 6*d.* ; and find what fraction 6 oz. 15 dwt. is of a lb. Troy.

3. Simplify :

$$(1) \frac{7}{1 - \frac{2}{\frac{3 + \frac{1}{2}}{7}}} ; \quad (2) \left\{ \frac{3\frac{1}{2}}{7} + \frac{2}{10\frac{1}{2}} - \left( \frac{5}{18} \text{ of } \frac{4}{7} \right) \right\} + \frac{4}{7}$$

*Algebraical.*

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8. Two persons start at noon from towns 60 miles apart. One walks at the rate of 4 miles an hour, but stops  $2\frac{1}{2}$  hours on the way. The other walks at the rate of 3 miles an hour without stopping. When and where will they meet?

9. Divide 225 into 2 parts, so that three times the greater may exceed 7 times the less by 45.

10. Prove that, if  $\frac{a}{b} = \frac{c}{d}$ ,  $\frac{7a+5b}{8a-3b} = \frac{7c+5d}{8c-3d}$ .

11. Solve the equations

$$(1) \frac{I}{x} + \frac{I}{2x} - \frac{I}{3x} = \frac{7}{3}$$

$$\left. \begin{array}{l} \frac{2x}{3} + \frac{3y}{2} = 16\frac{1}{6} \\ \frac{3x}{2} - \frac{2y}{3} = 16\frac{1}{6} \end{array} \right\}$$

$$(2) \frac{3x-1}{2x-1} - \frac{4x-2}{3x-2} = \frac{1}{6}$$

$$\left. \begin{array}{l} x-y = \frac{1}{6} \\ x^2-y^2 = \frac{5}{6} \end{array} \right\}$$

12. A is twice as old as B. Nine years ago he was three and a half times as old as B. Find their present ages.

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## XXVI.

1. If  $a=2$ ,  $b=3$ ,  $x=6$ ,  $y=5$ , what is the value of  $a+2x-\{b+y-[a-x-(b-2y)]\}$ ?

2. Add together

$$ax-by, x+y, \text{ and } (a-1)x-(b+1)y.$$

3. Multiply  $\frac{1}{x^2}-\frac{1}{y^2}$  by  $\frac{x}{y}+\frac{y}{x}$ .

Divide  $\frac{a}{a-x}-\frac{a-x}{a}$  by  $\frac{2ax-x^2}{(a-x)^2}$ .

*the Law of Real Property.*

45

10. 'So that, in process of time, copyhold tenure must disappear from our present modes of holding land.' Explain this historically.

Ste. 645. Williams 356-358.

11. Trace and account for the gradual conversion of strictly servile occupation into certain and heritable tenure.

Ste. 214 *et seq.* Williams R. P. 336-339. Digby 41 *et seq.*, 109, 213-222.

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## CHAPTER XVIII.

## INCORPOREAL HEREDITAMENTS.

(Stephen's 'Commentaries,' 647-693, 7th ed.; 666-712, 6th ed.)

1. Distinguish carefully between a corporeal and incorporeal hereditament, and comment on the principle adopted as the basis of division.

Ste. 647. Austin 372, 708. Williams 10. Digby 229.

2. 'In the transfer of incorporeal property, when alone and self-existent, formerly lay the distinction between it and corporeal property.' Explain this.

Williams 11, 231. Ste. 511. Digby 128, 331 (7), 328 (4).

3. Define an easement, and distinguish easements from profits. Is a right to draw off water from a well *in alieno solo* a profit or an easement?

Ste. 648. *Race v. Ward*, 4 Ell. and Bl. 702. Goddard on 'Easements' 1, 2. Digby 127.

4. Sketch the history, and give an outline of the leading principles, of the law relating to rights of common.

Digby 134-137. Ste. 649-657. Lord Hatherley in *Warrick v. Queen's College*, L. R. 6 Chan. App. 720. Maine's 'Village Communities' 85 *et seq.* Elton's 'Law of Commons' ch. i.

B.C. 220] OF THE SECOND PUNIC WAR.

3

endeared himself both to the soldiers and the general, and, on Hasdrubal's death, was unanimously elected to the chief command.<sup>1</sup>

**4. Hannibal's character.** Fearless, yet prudent in danger; powerful in body and active in mind; careful of his soldiers, and strict in discipline, Hannibal possessed all the qualities of a great commander. He was moderate, nay abstemious in his bodily habits, modest in dress, and only conspicuous for his arms and horses. By sharing every danger with the meanest soldier, he endeared himself to his men: and he was always the first to enter the fight, and the last to leave it. Livy is rather liberal to him on the score of vices: here they are—*inhumana crudelitas, perfidia plus quam Punica,<sup>2</sup> nihil veri, nihil sancti, nullus deūm metus, nullum jusjurandum, nulla religio*—no conscience at all.

**5. WAR BEGINS IN SPAIN, B.C. 220.—** Hannibal, with a view of causing the Romans to take up arms, determines to attack the Saguntines—a people by treaty<sup>3</sup> independent both of

<sup>1</sup> *Prærogativam militarem.*] The tribe which voted first in a Roman election was called *prærogativa* (*præ* and *rogo*) and it generally carried the votes of the tribes which followed it; for it was chosen by lot, and the lot was supposed to be under the especial care of the gods. On the whole subject of Comitia, vide *Dictionary of Antiquities*, s. v.

<sup>2</sup> *Punica fides.*] A proverbial expression among the Romans for 'bad faith.' They were not much better than the Carthaginians themselves. With regard also to the charge of cruelty, Livy does not bring forward throughout his book a sufficient number of instances to justify it: and though Hannibal is charged in the same way by other historians, it is very doubtful if their accounts are authentic. Livy does not call the treacherous massacre of 2,000 Capuans by Marcellus cruel!

\* For an account of this treaty, see p. 9, note.

## CHAPTER V.

Of the real and nominal price of Commodities, or of their price in Labour, and their price in Money.

**EVERY MAN IS RICH OR POOR ACCORDING TO THE DEGREE IN WHICH HE CAN AFFORD TO ENJOY THE NECESSARIES, CONVENIENCES, AND AMUSEMENTS OF LIFE;** only a small part of which can be supplied by a man's own labour; the greater part must be derived from the labour of other people, and which he must purchase; hence labour is the real measure of the exchangeable value of all commodities, p. 30.

*The real price of everything is the toil and trouble of acquiring it.<sup>1</sup>* What is bought with money is purchased by labour, as much as what we acquire by the toil of our own body. The money saves us the toil, and contains the value of a certain quantity of labour. *Labour was the first price, the original purchase money,* that was paid for all things: by it all the wealth of the world was purchased, and its value is equal to the quantity of labour which it can command, p. 31.

'WEALTH,' as Hobbes says, 'IS POWER,'<sup>2</sup> i.e., it may afford a man the means of acquiring power, by giving him the command of other men's labour; and his fortune is greater or less according to the quantity of other men's labour which it enables him to command, p. 31.

Though labour be the real measure of the exchange-

<sup>1</sup> Adam Smith does not make any distinction here between value and price. Modern economists regard the latter as a particular case of the former. Observe that the toil and trouble of the acquirer may have been less than the toil and trouble of the producer. Value may be defined as 'The ratio in which commodities are exchanged against each other in the open market.' (Cairnes.) Therefore there can be no such thing as a general rise or fall in values.

<sup>2</sup> Leviathan, Part I. cap. x.



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